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Challenge invites your comments. Address letters to Challenge, 475 Fifth Avenue, New York 17, N. Y.

Productive labor

•John McKnight's article, *Inflation's New Threat* [CHALLENGE, December 1956], approaches the real basis of the value of the dollar. He omitted stating that it has been defined by the minimum wage law as one hour of the least productive labor in industry. This and union demands in some industries for $1.60 for the least productive hour can only mean cost inflation.

By way of contrast, farm wages average approximately 70 cents per hour. This means that at the base of agriculture a dollar is defined as 1.5 hours of highly productive labor—so highly productive that we have the farm surplus problem and declining farm prices. The devalued dollar in the food processing industry results in a 42-cent food dollar, in spite of relatively low farm prices.

It hardly seems appropriate to attempt to regulate the currency by means of a blanket "tight money" policy which affects production of goods. The answer is to increase the productivity of the least productive hour in industry. This is a "challenge" to labor and management alike if inflation is to be controlled.

CHAS. WILLIAM VORIS
Watsontown, Pa.

•In his article, *Exporting Competition* [CHALLENGE, October 1956], Irwin M. Stelzer deals with a subject which has received altogether too little attention from economists. One reason for this neglect is, no doubt, the extraordinary complexity of the problems that arise, involving not only differences between American and foreign economic viewpoints, but also delicate questions of U. S. foreign relations. The dilemma which these various interests may pose is vividly illustrated by the antitrust suit pending against five major oil companies.

On the one hand, the Justice Department has charged these companies with conspiracy to restrain the foreign commerce of the United States—something which, if proved, would obviously be illegal under existing antitrust statutes.

On the other hand, these very companies serve as an instrument of American foreign policy in some of the most vital areas of the globe, and any action that would impair their position would also weaken that of the U. S. as a whole.

HELMUT J. FRANK
Dobbs Ferry, N. Y.

Schools and taxes

•Haig Babian's frightening article [CHALLENGE, October 1956] tells of

the progressive "breakdown of our public school system." His only suggested remedy is more taxes without end, and not one word of economy in government or stopping the waste of billions of dollars of taxpayers' money. The Hoover Commission Report lists hundreds of possible savings of taxes.

ERNEST C. HASSELFELDT
Chicago, Ill.

I agree that the Hoover Commission recommendations do indeed promise some useful ways to cut federal spending. But my article did not condone a waste of the taxpayer's money; it called for greater public willingness to spend more tax money on our schools.

My point is this: let's get accustomed to paying higher taxes for schools, regardless of whether we use money "rescued" from the federal government (which I fear will not be as much as some people anticipate), or money assessed from new sources of revenue. In either instance, we can find the money, and we had better spend the money if we want the kind of schools we say we do.—H. Babian.

A "diplomatic victory"

• Your whitewash of the Suez fiasco [CHALLENGE, November 1956] under the heading, *Economics in Action,* [is] rather far-fetched.

When Nasser seized the Canal, it was a tentative move, much like Hitler's entering the demilitarized Rhineland . . . Unfortunately, neither England nor France were in a position to do the "knuckle wrapping" promptly. When they were ready for it, the spontaneity was gone, and they pulled their punches in deference to American feelings. Result: an abortive, inconclusive action.

Dulles' policy was one of jumping hither and yon . . . In fact, it looked conspicuously like "no policy," with the supreme objective of not rocking the boat, especially that close to election time.

The crowning insanity of this "policy" was that it stood us shoulder to shoulder with Soviet Russia, voting against our longtime allies, Britain and France, in the UN.

Whatever the causes, the result is a national debacle of dimensions not yet comprehended. But, when you went to press you were talking about our "greatest diplomatic victory."

ERIC REISFELD
Silver Spring, Md.

No one can say with certainty what would have happened if we had done thus and such when Nasser nationalized the Suez Canal. But we do know what has not *happened as an accompaniment to the policy, or "no policy" as our reader puts it, pursued by the United States. We do not have Russian "experts" and "advisers" taking over the Middle East under the guise of providing assistance against the "Western imperialist aggressors." We do not have Israel overwhelmed by a general Arab coalition, spurred on by Russian diplomatic and military support. We do not have the Asian-African bloc lined up solidly against us in the UN. We do not have a breakdown in the Atlantic Alliance. Above all, we do not have a world war.*

On balance, then, considering what has not happened against what has come out of the Suez crisis thus far, we see every justification for our labeling of American policy (on Oct. 7, when we wrote it) a "diplomatic victory."—Ed. ■

a personal note

from the editor

the multiplying economic cells, and the prospects for prosperity

THE USUAL year-end economic statistics have been piling up for the past several weeks, and they add up to another prosperous year for the United States. Already a deluge of facts and figures purporting to show what 1957 will be like is upon us. Still no signs of a general depression. And that is what people most want to know: Is there, or is there not, going to be a depression? How long can we keep going in this happy state of relatively prosperous times?

There has been an interesting development during the past five years which might help to provide an answer. More and more the crystal ball gazers are telling us what the story is likely to be in private dwelling construction; in automobile sales; in business investment for new plant equipment; in the rate of consumer credit buying; in food consumption. In other words, it is becoming more and more the practice of those who make a profession out of economic prophecy to specialize in their areas of prediction. And while such specialization is becoming increasingly narrow, following a trend which pervades all the professions, it does provide us with a significant key with which to unlock the secrets of the economic body and see thereby what goes on inside.

The fact is that our economy has become fantastically complex, and if there were a cellular structure in the economic body, we could say that the cells are breaking up and reproducing themselves in ever-increasing numbers. This is how the economic body grows, and it is becoming more and more necessary, in our study of how each cell is doing, to use more and more powerful and specialized microscopes. The economic prognosticator feels safer when he reports his findings on one cell than when he has to report on the whole body.

We are just beginning to grasp the significance of the multicellular structure of the economy. For one thing, there is increasing evidence that the more varied and numerous our economic activities become, the greater chance there is that we shall have not only absolute eco-

nomic growth but also relative per capita improvement. For another thing, the less an economy can be characterized as an agricultural or manufacturing economy, the less likely it is that the economy can be deeply hurt by a lag in one of the sectors of its activity. This is diversification with a new meaning. Such diversification makes it possible for the people of the United States to live in relative prosperity even though a slump in manufacturing might occur, as in 1954; or a slump in automobiles, as in 1956; or in home building, as today; or in farming, as during the past four years.

Indeed, when one considers the general slump in all sectors of the economy that culminated in the economic bust of 1929 and the subsequent depression, we can appreciate the true meaning of what became obvious just five years ago. Each cell, or each economic unit, seems to be developing a tendency to generate strength on its own, even though it is undeniably and intimately connected and finally dependent on other units. The result is that a slump in one unit, while not imperceptible, does not immediately set off a chain reaction throughout the whole economy. There is time in which to recover, without the whole economy becoming seriously afflicted.

The United States today is a land of food surpluses, yet only ten per cent of the work force is engaged in agriculture. In spite of an unprecedented building boom, only five per cent of the work force is in construction. Our heavy industry and manufacturing plants are the wonder of the world, yet only 25 per cent of the work force is employed in mills and factories. And what about the remaining 60 per cent of those gainfully employed? Here are the figures: ten per cent work for the government; and 50 per cent are engaged in providing services and in distributing and transporting goods. To be sure, a great many people engaged in services, in distribution and transportation are employed in industries which have a direct line to the manufacturing process. But such people are only indirectly dependent upon the employment picture in any one of many manufacturing industries. In short, the links of interdependence have been lengthened and, therefore, it is believed, the communicable nature of economic distress has been rendered less potent.

It may be that we shall never really find out whether the multicellular development of the economic body really can resist a full-blown economic depression. We would, of course, rather not put it to the test. But it does look as though we shall have more than a fighting chance in any economic crises that might unfold.—H. B.

Challenge Notes

Economic stagnation and the need to provide for growth

ARE investment opportunities drying up? Is the economic frontier disappearing? Must stagnation be the ultimate fate of highly developed capitalist economies like the U. S.?

To anyone looking at the unmistakable signs of economic vitality around him, these questions may not seem worth asking. Last year, business spending for new plant and equipment topped 1955 by 22 per cent, and most surveys indicate a continuing, though perhaps somewhat slower, increase for the next two years. By 1959, moreover, we should be breaking new records in capital plant expansion. Under such circumstances, how can anyone worry about economic stagnation and a drying up of investment opportunities?

And yet many economists, businessmen and government officials continue to worry—as, indeed, they should. They remember the postwar warnings of distinguished economists like Alvin H. Hansen and Joseph A. Schumpeter who predicted stagnation either because they felt that investment in a peace-time economy would not be adequate to maintain full employment (Hansen), or because, like Schumpeter, they feared that our big-business-big-union type of economy can no longer provide the right atmosphere for the kind of entrepreneurial activity on which the success of capitalism has, in the past, largely depended.

While the phenomenal postwar growth of the American economy has disproved both of these gloomy prophecies in the short run, our ability to disprove them in the long run will ultimately depend upon our success in providing maximum opportunities for capital and creativity.

Investment in innovation

HOW WELL are we doing this? Are we providing a favorable climate for investment in innovation? And does business encourage the innovator?

In a private enterprise economy these two questions are intimately related. Investment opportunities depend largely on the rate at which *new* ways of satisfying our insatiable wants are introduced. But the rate of innovation depends (particularly in a highly complex society where innovation tends to be very expensive) largely on the willingness and ability of investors to finance growth.

On none of these questions can we afford to be complacent. The fact that business is spending record sums for capital plant expansion does not necessarily mean that it is spending enough to meet the tremendous demands of a rapidly growing population. As Dr. George Garvy points out (*see page 48*), some of business' recent expansion has had to be financed through medium- and short-term bank loans instead of long-term borrowing. This shortage of investment funds (which is, of course, the most important characteristic of the current "tight money" situation) can, in the long run, be ended only through an increase in personal and business savings. But we have only begun to find out why people save (*see page 56*).

Even more important than the *adequacy* of investment opportunities, however, is the *kind.* Is there sufficient investment opportunity in the new and untried (and possibly risky) venture? Or are investment moneys being increasingly channeled into the tried and safe?

Thus far, the growing size and power of economic organizations does not seem to have had a dampening effect on innovation or an individual creativeness. If anything, the big organizations have offered greater scope for the creative entrepreneur. Our job is to keep it that way. For if ever we become complacent about the present and uninterested in the future, the gloomy predictions of Messrs. Hansen and Schumpeter may well be realized.

Man and the machine

IN THIS age of automation, it is only to easy for man to develop inferiority complexes when contemplating the marvelously efficient machines which man himself has created. It, therefore, comes as something of a relief to learn from Dr. Max W. Lund, head of engineering psychology for the Office of Naval Research that we should not underestimate the power of a human. Man's sense of hearing, smell and touch, his long-range memory and his ability to evaluate information make him the match of any machine. From an engineering point of view, says Dr. Lund, man is not such a bad machine himself.—M.K.

What makes an economy Expand?

by Haig Babian

"Expansion will be most rapid where there are many sources of economic initiative seeking to service the greatest number of people"

TALK about "this expanding economy of ours"—particularly by those who like to report the national economic statistics—more often than not is predicated on the assumption that people are interested and they *do* want to hear about the economic performance records for the year just ended. Then, presumably, when the inevitable comparisons are made with the statistics for the years 1929, 1941 and 1950, everyone will see the economy's expansion and be both tickled pink for having seen it and satisfied that things are going about as well as can be expected.

Most economic reporters are not unaware of the assumptions they have adopted. They merely do their reporting with the understanding that people in all walks of life have a stake in economic expansion, and therefore they are interested. Moreover, it is felt that the process of expansion is already fairly well understood, in principle at least, so that there is no point in tackling the economic abc's every time the facts of the current economy must be reported.

Such assumptions may be necessary to the task of economic reporting, up to a point. Beyond that point, we lose sight of two important considerations. First, the assumption of a general and personal stake in economic expansion is derived from a uniquely American experience and process which, if not reiterated and thoroughly understood, can be misunderstood, left unattended and eventually assumed-to-death. Second, the process of economic expansion can assume any of several different forms with differing objectives, all of which might yield a favorable return insofar as statistical

measurements can show, but not all of which will yield the kind of results that count on the scales of 20th century western values.

Our task is to be able to distinguish between expansion for general good and expansion for restricted privilege; between expansion that breeds its own good and expansion that breeds its own destruction. The economic reporter who assumes too much too often falls into the habit of measuring instead of evaluating. And so may his audience fall into a similar habit, much to the detriment of that audience's economic future.

Is it safe to assume, for example, that a rise in national income will bring with it an increase in the income of the many? The answer is, of course, that it is not safe; for all the increase could go to the few. Can we assume that the introduction of a better way to do things raises standards of living? Not always. The introduction of better breeds of sheep and cattle in 18th century England drove out thousands of crop farmers, the net effect being that living standards of the many fell while those of the few rose handsomely. Does labor-saving machinery always increase productivity and wages? The answer is yes, if we are speaking of the per capita productivity of those who work with machinery. Each man will produce more, and his wages will be higher. But sometimes *marginal* productivity will decrease, and the wages of the majority will fall—if workers are displaced by machinery and new jobs are not available.

Does full employment mean high purchasing power? Not always. Nazi Germany made work for everyone, but the consumer could not purchase tanks and guns, and he ate *ersatz* foods. Communist Russia provides work for everyone, but the planned economy does not produce enough to fulfill the consumption requirements of the work force.

Thus, there are a variety of catches to, and pitfalls in, this business of measuring economic expansion. And oftentimes it takes more than statistics to take the full measure of the kind of expansion that all of us feel we have a stake in. It may come as a surprise that the economic drama is played not only for the benefit of human beings but that human beings play the principal roles in that drama, as well.

The American economy, as typified by the standards of the people of the United States, has admittedly enjoyed the advantage of certain mutations which have left it something quite different from the still slowly evolving economic body of its European ancestry. Many built-in handicaps to a rapidly expanding economic pro-

cess—handicaps presented by unresolved social, political, religious and economic relationships—were left behind in the several waves of immigration to the western hemisphere. The desire of these people to make a geographic change was an expression of their wish to improve themselves. Improvement of economic status was an important aspect of the general desire to live in more amenable social, political and religious surroundings. Once there was hope that such desires and goals might be freely pursued on these shores, the motivation to exercise individual initiative became even more compelling. And once the decision to exercise initiative was made, each man had committed his individual capacities to the effort to get what he wanted and needed—win, lose or draw.

Atmosphere of freedom

The atmosphere of freedom has given forth relatively democratic economic expressions. The American corollary to an increase in national income was the increase in the personal income of all the people. The American corollary to technological change was the almost instinctive selection of techniques by criteria favoring an increase in the income of the many. The American corollary to the capital accumulation process, so long in the hands of the few, was the development of agencies and institutions which want to use the pooled savings of the many. The American corollary to the net purpose of the economic system was the orientation of the whole process toward consumer goals and desires.

The compelling beat

It is inescapable that the sum of such corollaries provides us with the answer to why people should be interested in economic expansion. It is for us, the people, that the economy does expand. It is also inescapable that at the heart of the capacity to expand is the compelling beat of many sources of economic initiative. Out of the individual desire for self-betterment came the freedom to try. Out of the trying came the exercise of individual initiative, and from this emerged the efforts to find ways to satisfy wants and needs. Out of the efforts to provide such satisfactions came answers which proved useful to others. And out of such answers came the chance to find personal advancement while literally being of service to others. To learn how to serve others in new ways presumed self-gain; a multiplicity of new ways set new standards to which old levels of living aspired. And out of this process of individual effort there emerged a vast pattern of interdependence, constantly fed

and expanded by many people finding more and more things to do for others.

Here we have a crucial measure of not only how an economy expands, but for what ends it does expand. The more ways that people can find to serve one another, the greater the expanse of the economy. And expansion will be most rapid where there are many sources of economic initiative seeking to service the greatest number of people.

Human economics

Unfortunately, no matter how hard we look at current economic statistics, no matter how often they are thrust upon us, we cannot go by assumptions and expect statistics to carry with them always their own true meaning. To say that the national income of the United States has increased from 675 million dollars in 1799 to 6.8 billion dollars in 1869, thence to 64 billion dollars in 1919 and eventually to more than 330 billions in 1956—all this is to state some interesting facts. But such facts by themselves have little relevance to the world of human economics. Can we afford to overlook the possibility that we might have been able, with a little more wisdom, to raise real national income to 400 billion dollars? Or, if we had not been as wise as we were, that we might be at only a 200-billion-dollar level today? Why we did not do better or worse is at least as important a matter to consider from time to time as the facts of our current achievements. We just cannot assume that economic expansion is as pleasantly unavoidable as death and taxes are unfortunately inescapable.

Motives and purpose

Moreover, the capacity to produce what we are producing—all too often traced to the 334 billion dollars currently invested in basic facilities for the production of goods and services—urgently requires reference to the human motives and purpose that brought plant, equipment and organization into being. Will there be the same motive and purpose to a degree sufficient to provide the 650 billion dollars for plant and equipment required over the next ten years?

Nor do the statistics tell us what we assume about the shape of expansion when we say that the economy is, indeed, expanding. Anyone looking at the cold figure of a 410-billion-dollar national product in 1956 can find justification in the belief that there has been an almost fourfold increase in national product since 1929, when the national product was only 104 billion dollars. But in actual fact, when changes in

the value of the dollar are taken into account, the real increase in national product comes to only two and one-quarter times the 1929 figure. And this increase must be shared by 48 million more people; for the population has certainly increased since 1929. On a per capita basis, then, there has been less than a three-fifths increase in national product since 1929—certainly not insignificant, but not a fourfold increase either.

A long time ago

Thus, by a series of evaluations, we move from a statistical pronouncement of *plenty of growth* to a per capita appreciation of the *need for more growth.* After all, 1929 was a long time ago; and in an era when it is possible to circle the globe in 45 hours, one would expect that a less than three-fifths increase in 27 years in our capacity to serve one another does not provide grounds for complacency.

And it is precisely when we begin to make such interpolations that we begin to see expansion in its full stature—as an expression of both absolute and relative increase. That there must be both is absolutely essential, although our assumption of their existence in our economy does not necessarily imply that they will always be there. But consider what expansion without both qualities might mean. If 1929 is taken as our base year, without an absolute increase in national product since then, the 169 million people of today would be worse off than the 121 million of 27 years ago. Without a relative increase in product, we would be living with the same standards today as those prevailing in 1929. Unthinkable? Not for the majority of the people of the world.

Only we in the United States assume that expansion means both growth and progress, per capita, for the many. The indelicate and often hopeless race between the capacity of human beings to reproduce and their capacity to provide goods and services for one another is not in the American tradition.

Can we assume that we shall always have sufficient incentive and freedom to initiate, that we shall always have a profound understanding of what we have done right, to keep our rate of economic expansion, however defined, a meaningful thing for all our people?

The answer, quite frankly, is that we dare assume nothing. For the more we assume, the less we understand. The less we understand, the less capable more of us become of making intelligent efforts to find new ways to serve one another. Once that begins, the indelicate race has started for us, too. ■

Feeding Our Expanded Population

AMERICA 1975 SERIES

Farmers and food processors will adapt their marketing methods to changes in the pattern of living

by James C. Drury

By 1975 when the total population will stand at almost a quarter of a billion people, the United States will have about 60 million more mouths to feed than she does today. Where the food will come from and how it will be produced and marketed will depend on many changes and developments, some of which are now taking place.

Changing attitudes among people, new farming methods, governmental policies towards agriculture and business, new types of food processors and handlers, changes in food technology and intensive use of market stimulating techniques—all will contribute to what can be expected 20 years from now.

Farming, in the midst of a continuing technological revolution, will employ more machines and produce more food, with fewer farmers operating larger farms and harvesting more food per acre. The farmer with little capital to buy machines, or with insufficient acreage to justify the economical use of machinery, will be out of business. Some "small" farmers will be successful at growing specialized crops, fancy fruits and vegetables or seed crops. Some may become processors, wholesalers and even retailers of the food they produce, at least for a limited market.

The growing population will assure the farmer of a steady market for his crop, but many crops may still be in surplus. Cotton, wheat and other price-supported crops, for example, are relatively less in demand today than they were a generation ago. This trend will continue as more synthetic fibers are developed and as diet-conscious Americans turn from

cereals to meat and vegetables. Farmers will have to accommodate themselves to the industrial and social changes that affect agriculture.

Methods to reduce the farmer's costs are now being developed and may spread. Among them are the machinery pools—a number of farmers pooling capital to purchase the expensive equipment they need or to hire contractors who have farm machines to do the planting and harvesting.

Farmers as marketeers

Farmers, now being trained in the most scientific farming methods, will also have to be marketing specialists. In recent years, as a result of the experience of associations such as the California orange growers, farmers have learned that they must market their products just as much as any manufacturer. The orange growers have conducted extensive advertising and marketing campaigns to educate the public about the healthful benefits of oranges. They developed many new recipes and uses for oranges, and built up the demand and production of their product. Other large-scale farmers, and groups of farmers, are now utilizing the same techniques.

Housewives now go to their fruit and vegetable store to ask for Maggio carrots and Andy Boy broccoli, the produce of two large farmers. Other producers have formed associations to advertise and market Northwest turkeys, California avocados, Maine potatoes, New Jersey cranberries and Wisconsin cheddar cheese. In the next 20 years, extensive marketing campaigns to sell the produce of farmers on a state and sectional basis may be expected to grow.

The food processor, too, has stimulated markets for the produce of farmers. But the fresh foods which the farmer expects to sell to the consumer have been relatively neglected; and farmers only now are remedying this neglect. General wholesalers and retailers of fresh foods cannot be expected to supply any more market stimulation for specific foods than their food-processing counterparts. In each case it is up to the producer to initiate market-stimulating campaigns.

For the farmers, the alternative to stimulating demand for their products is to ask the government for more support. In the past, government support has always resulted in increased surplus and greater controls. By 1975, the farmer may regain control over his own affairs, producing for the market and not for government storage bins.

James C. Drury is Professor of Marketing at the School of Commerce, Accounts and Finance, New York University.

The farmer will probably do more storing on his own, utilizing the many new methods of food preservation to save his produce for the time when he can get the best price. In the next 20 years, food preservation will have been advanced by electronics which will improve the present methods of drying, pickling, cooling, freezing and canning.

Use of radioactive isotopes

Although much of atomic research is still shrouded in secrecy, the use of radioactive isotopes will also have far-reaching consequences on foods. Rays emitted by isotopes destroy most of the bacteria in vegetables, meats and other foods. Irradiated potatoes, for example, can be stored for two years without sprouting or spoiling.

An earlier development, irradiation by ultraviolet ray, not only preserves foods but converts basic substances to important health supplements. Irradiation of milk, for example, converts the cholesterol of milk fat to Vitamin D.

Such food preservation methods will enable the nation to save millions of tons of food now being spoiled yearly. Every morsel of food will be utilized to the fullest to feed the nation's growing population.

The birth rate in our country is now well above four million a year. These children will be the young fathers and mothers of 1975. Their own parents, who were children during the depression years of the Thirties, have shown courage and confidence in the future by deciding to have larger families. Larger families demand larger homes and mothers today are working to help their husbands pay the mortgages on the more expensive homes. With larger families to be cared for, parents and children now spend more time in activities around the home. How will these changes affect our eating habits?

More single-service prepared meals, which can be heated and served in their original containers, can be anticipated. Since two out of every five women are expected to be working outside the home by 1975, and since more children will receive a hot lunch at school, working mothers will find it convenient to prepare this type of ready-to-cook evening meal when they return home.

More food in single-service units can be anticipated for another reason. The growth of plant and office cafeterias suggests that few lunches will be prepared at home. The single-service meal unit will become a fast and convenient substitute. To bring these meals within the budgets of all office and factory workers, they will be prepared in commissaries and delivered to nearby stores, offices and

plants to avoid duplication in the work of kitchen staffs. They may be prepared in advance and quick-frozen, or they may be cooked and prepared daily. Meals will be warmed in fast, electronic ovens.

By 1975 it is expected that there will be a total of 90 million men and women working. When the school population is added to this total, the volume market for lunches eaten away from home becomes self-evident.

"Locked-in" weekends

The young working couples of the past 20 years recognized the convenience of frozen foods and popularized their use. They also recognized the convenience of instant foods and prepared mixes. This willingness to adopt new and different foods and ways to prepare and serve them, will, no doubt, be passed on to their children, the young working couples of 1975.

But all foods will not be prepared for single-service presentation. By 1975, half of our people will be "locked in" their suburban homes for long weekends. The growth of population and traffic congestion will even keep many city people at home. These long weekends will afford time to replace the hurried, standardized and mechanized meals of the work-week with some good, old-fashioned home cooking. Suburban weekends will enable American women to employ their culinary skills and enjoy recognition from a family eagerly anticipating some of Mom's cooking. And the gourmet in every man will find expression in outdoor cooking, patio parties, and barbecues.

Of course, people will always "eat out" on occasion. It is estimated that Americans are already eating one meal in four outside the home. There will be a demand for the variety of French, Italian, Chinese and other types of menus. However, the most popular eating out places will be those which feature fresh foods cooked to bring out their natural flavors. More and more, this type of restaurant is to be found in the suburbs and along the highways of America.

The concept of suburbs as "bedroom towns," where people with city loyalties go to sleep early, is being supplanted by a new type of suburban loyalty. As suburbs grow and become isolated by traffic congestion, a sense of community will develop. The current sprouting of shopping centers in suburbs is reviving the town square atmosphere of early New England. By 1975, these shopping centers will be completely integrated into the life of the community.

"Convenience" foods and "shopping" foods will both be sold through these centers. The desire of people for one-stop shopping

will lead them to buy their packaged foods and staples from the supermarket in the center and then to shop around among specialty food shops for fancy foods, special varieties and foods prepared on the premises. And of course, while there, the shopper can eat lunch or dinner in any one of a variety of restaurants.

There will be great interest in food for health's sake as well as for taste's sake. The popularity of diet books and the intensive research on the effects of various foods upon health are evidence of this interest. Present-day campaigns stress foods which reduce weight—aimed at the 25 million overweight people, and increase weight—aimed at the 15 million people who are underweight. These campaigns can be expected to continue until the relationship between proper food and health is established.

Newspapers carry reports daily of new medical discoveries about the relationship of food to health. It has been determined, for example, that heart troubles are frequently caused by a fatty substance called cholesterol in the blood. The growth of this substance is stimulated by animal fats but reduced by certain types of fish and vegetable oils. If this is substantiated by further research, it appears likely that vegetable and fish oils will dominate our foods in the future.

In another instance, multiple sclerosis is reported to respond to a special low-fat, moderate-protein, high-carbohydrate diet. And various vitamins have been effective in treating nerve disorders, high blood pressure, anemia, tuberculosis and other health problems. Such research indicates that man may, in time, have to eat food for his health as well as his pleasure.

Any anticipation of the future, however, must assume that man will not start an atomic war. In view of the total destruction that may result, it would perhaps be more appropriate to speculate upon food for man's soul than for his stomach. ■

Food Bill Increases

AMERICANS are now eating less potatoes and bread and more relatively high-priced foods such as beef, processed fruits and vegetables, poultry, eggs and dairy products, according to the Department of Agriculture. The changed eating habits resulted in the consumption of 71 billion dollars worth of food by Americans last year, a five per cent increase over 1955's food bill. Most of the food—or 45 billion dollars worth was sold by supermarkets and corner grocery stores, and 26 billion dollars worth of food was accounted for by restaurants, roadstands, milk and bread routes and institutions.

AMERICA 1975

SERIES

The Changing Industrial Map

It is influenced by population shifts, technological change, new sources of raw materials and public projects

by Herbert O. Jason

INDUSTRY, adhering to Horace Greeley's advice to young men, has been trekking westward for the last 75 years. In the next 20 years, it will continue to move west but will also fan out to other regions, especially toward the South, trailing after the population movement as well as attracting new workers to the areas.

The growth of industry on a regional basis has always been accompanied by similar population shifts. The rate of increase of manufacturing in New England and Middle Atlantic states reached a peak in the last quarter of the 19th century but then tapered off as people and industry moved westward. The Central states then forged ahead in expansion of industrial facilities and by 1947 had overtaken the Middle Atlantic region. Since 1947, the shares of Central, Middle Atlantic and New England areas in the nation's manufacturing facilities have declined while those of the Southern, Far Western and Northwestern states have increased. The highest industrial growth rate, however, has been registered in the Far West.

While this trend toward industrial dispersion conceivably may be reversed in the next 20 years, the prospect appears unlikely in the face of so persistent a movement. On top of that, other indicators reveal why industry will keep spreading itself out over the country.

The most important factors in determining the face of the *industrial* map of the country— not the *business* map with its financial centers and lines of distributive and service trades—have been the available sources of fuel and raw materials, and transportation and

communication services. Half a century ago, iron ore, copper, cotton and lumber comprised a preponderant part of industrial raw materials. Today gypsum, potash, borax, bauxite, uranium, sea water and the air itself—as well as dozens of other raw materials unknown or unused in 1900—are the basis for large and growing industries. These materials are found in widely scattered regions, and since proximity to raw materials is a factor in plant location, this fosters industrial dispersion.

The increased use of oil and gas has lessened the importance of coal supplies which were a key factor in industrial location up to a generation ago. Within the next 20 years nuclear reactors will probably begin to supply a significant fraction of industry's power requirements. This development will foster industrial dispersion even more than the rise of oil and gas as energy sources.

For one thing, the chief known deposits of reactor fuels are quite remote from the principal sources of coal, oil and gas. But a nuclear reactor, unlike other power plants, need not be located close to its source of fuel supply for economical operation. Nuclear fuels are light and easily transportable. This fact makes it possible to erect nuclear power plants in areas where other fuels are unavailable or uneconomical and widens the areas where factories may be economically located.

The development of new and improved means of transportation and communication will also promote industrial dispersion by reducing old "barriers" of time and distance. One can be confident that by 1975 jet aircraft, helicopters, more efficient motor vehicles and new applications of electronics will enable industries to spread themselves all over the industrial map. With improved transportation and communication systems will come even greater human mobility than exists today. And when people have mobility, markets shift with them.

The regions which will be the chief beneficiaries of this industrial dispersion movement are: the Southeast, the Southwest and the Far West. These areas will not necessarily gain at the expense of the Central, Middle Atlantic and New England areas. The general growth of population, as well as the continuance of market-tied industries, such as baking and brickmaking, will probably forestall an *absolute* decline in the regional "home market" for industrial products manufactured in the Central, Middle Atlantic and New

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England areas, despite a *relative* decline in their share of the nation's industrial activity.

Unmatched resources

For a variety of reasons, the industrial growth of the Southeast in the next 20 years will probably outstrip that of the other three regions most likely to expand at a relatively high rate. The market for its industrial products is close to the populous Northeastern part of the country; an abundant labor supply is available at comparatively low wage rates and adequate fuel and energy sources exist—off-shore oil from the Gulf of Mexico, natural gas from Louisiana and Mississippi, and coal from Alabama, Tennessee and Kentucky. Furthermore, it is endowed with domestically unmatched resources of two important industrial raw materials, bauxite and timber, as well as adequate reserves of many other raw materials including phosphate rock, sulphur, pyrites, iron ore, gypsum, feldspar, mica and magnesium. Finally, it has an hospitable climate, a factor that is enticing people as well as industries from the more congested and colder areas.

The Far West will be a close runner-up. Indeed, this area's postwar rate of growth has exceeded that of the Southeast, but its rate of advance in the next 20 years will probably slow down. Up to now, the preponderant part of the Far West's growth since World War II has occurred in Southern California where basic resources are limited. Its deficiency in fresh water supplies cannot be overcome by present water storage programs, including the Upper Colorado Basin Development Project now under construction. The area's oil, gas and other fuel supplies are already inadequate, and, as its reserves decline, further "imports" from other regions will become increasingly expensive.

The biggest single contributor to the Far West's recent industrial growth—the aircraft industry—will find its expansion within the area checked by the Defense Department's industrial dispersion program. Unlike the Southeast, the Far West lacks or is short of such essential raw materials as coal, sulphur, bauxite and phosphate rock. It is also handicapped by its remoteness from the Northeastern area—the most populous and richest section of the country. However, the availability of an abundant supply of cheap (hydrogenerated) electricity and of increasingly important timber resources in the Central and Northern parts of the region may partly offset these deterring factors.

The third highest rate of industrial growth in the next two decades will probably come in the Southwest. Unmatched sources of

oil and gas not only assure cheap fuel for the generation of power but also provide the basis for a vast petrochemical industry which produces at present nearly three thousand chemicals. On the other hand, climatic factors do not favor a population increase comparable to those of the Southeast and the Far West. The aridity of the region is notorious and appears to be increasing, and temperature fluctuations are wide and erratic.

What kind of industry?

What sort of industries will pick up their belongings and move from one area to another? Obviously, mills processing raw materials will continue to be located close to mineral deposits and timber ranges. In view of America's use of 50 per cent of the raw materials made available in the world, the discovery of new foreign sources of supplies to supplement domestic reserves will foster the construction of new processing centers along the seaboard, near port cities. And technological advances will make it possible to exploit previously known but unworked domestic deposits that have hitherto been uneconomical to extract, thereby bringing new extractive and processing industries to scattered areas.

These factors will result in increases of steel, aluminum, copper and paper mills along or near the borders of the country. On the other hand, such industrial facilities as cement and fertilizer plants will be widely distributed inland. Factories to fabricate metals, textiles, plastics and glass will also be more widely dispersed. These industries are more responsive than raw material refining industries to population movements and will grow with the market. For the most part, their labor requirements are for unskilled or semiskilled workmen. The supply of such labor is already widely dispersed, and it will become more so.

The precision instrument industry which manufactures machine tools, electronic devices and other intricate and technical instruments and equipment can be expected to continue to grow rapidly in the New England and Middle Atlantic regions as well as in the Far West during the next 20 years. Two paramount factors govern the location of such plants and point to increasing concentration along both coasts. The first is the availability of highly skilled tool and instrument makers, machinists and other workmen in these regions. The second is the assembling of scientific personnel in colleges and universities in the regions. Advanced research laboratories sponsored by foundations and the federal government in colleges and universities not only serve as training centers for

technicians but make pioneering efforts to develop industrial techniques and tools.

The shift westward and southward of the huge apparel industries — which manufacture all kinds of garments from footwear to hats and handbags to jewelry— can also be anticipated. By 1975, such centers as Los Angeles, Miami and Dallas will not only be serving the apparel needs of the greater population in the surrounding areas, but will also be initiating new fashion trends.

To soften the accompanying economic distress as industries leave for greener pastures, the federal government can be expected to play an increasing role. In the next 20 years, it may very well exert a check on the industrial dispersion trend by sponsoring long-range public projects in depressed areas. Construction of the St. Lawrence seaway, for example, will open up the entire Great Lakes region to ocean vessels and create a new 8,000-mile deep water coastline (though, or course, not all of this additional coastline is in the United States, and though the seaway will be open to navigation only about two-thirds of the year). Not only will the seaway bolster the existing industry in the Central and Middle Atlantic areas, but it is also expected to attract new plants and factories.

Other public projects are still in the planning stage, but it is a safe bet that river basin development programs, land reclamation projects, highway construction programs and other federally financed activities will exercise a strong influence on the pattern of industrial location in the country by 1975. Some of these projects will promote dispersion, some check it, but the dominant forces determining the direction of industrial movements will be the technological changes, the uncovering of new sources of raw materials, improvements in transportation and communication and population shifts. In our dynamic economy, these movements do not come overnight. They are continual. ■

South Adjusts to Minimum Wage

THE SOUTH, with a concentration of low-wage industries, appears to have adjusted to the increase in federal minimum wage levels without too much difficulty. The new one-dollar-an-hour minimum wage brought increases of from ten to 25 cents an hour to approximately 650,000 Southern factory workers. Before the increase became effective, the average wage of production workers in the South, where one-fifth of the factory workers are employed, was $1.36 an hour, compared with the average wages of $1.67 in the Northeast and $1.80 in the Midwest, which account for seven-tenths of factory employment in the U. S.

Foreign Capital Buys A Stake in the U. S.

Investors abroad own 30 billion dollars in American stocks and securities

by Egon Kaskeline

A FEW weeks ago, Washington was alarmed by rumors of "foreign control of American industry." As a result of these rumors, Defense Department officials and investigators of the Senate's Internal Security Subcommittee determined to find out the full extent of foreign participation in the American economy. Was American industry "selling out to foreigners"? Was the Soviet Union acquiring substantial blocks of American industrial shares, especially in defense plants?

There seems to be little reason for alarm. No evidence has been discovered pointing to Soviet holdings in any important American industry. While it is true that many foreign holdings of American stocks are shrouded in mystery, there is every reason to believe that this secrecy is prompted by nothing more sinister than the desire of foreign investors to escape tax prosecution at home.

By the end of 1955, according to latest Commerce Department figures, foreign nationals owned almost twice as many American stocks, bonds and securities as before the war. Foreign investments and assets are now running up to 30 billion dollars—40 per cent of which is in long-term investments and the remaining 60 per cent in short-term assets, including American government bonds.

This seems to be quite a jump from the 12,820,000,000 dollars of foreign holdings in the United States before World War II. However, foreign capital growth appears to be less impressive if the 60 per cent postwar devaluation of the dollar is taken into account. Even more important, as a result of the rapid growth of American industry during the war and postwar period, the *proportionate* share of foreign holders in American industrial property is considerably smaller than it was in

the pre-World War II period.

World War II had represented a period of considerable "disinvestment." The Allies, especially France and Great Britain, seized the foreign assets of their nationals and sold them to cover their mounting war expenses. The recovery of Western European investments in the United States is a postwar development.

How it came to be

Today, however, European assets represent more than half of the total foreign investment in this country. Western Europe's total capital outflow during the postwar period is estimated to have reached between ten billion and 12 billion dollars. America's own foreign investments during the same period increased by 27.5 billion dollars.

How did this come about? The main reason, of course, is Western Europe's remarkable economic recovery. Her war-battered nations have not only grown new industrial limbs by investing billions of dollars in the modernization and expansion of their domestic economies; they have, at the same time, acquired new economic positions abroad.

While much of Western Europe's public investment has gone into government-sponsored development schemes for her overseas possessions, private citizens have not shared their government's tendency to let investment follow the flag. Private capital, as always, has tended to flow in the direction of the highest yield and the relatively lowest risk. More than half of Western Europe's capital export has gone into the highly developed economies of the United States and Canada.

One of the strongest motives behind European capital exports has been the desire to escape government controls at home. Under the influence of socialist theory, Western European governments promulgated tax and other legislation aimed at penalizing the capitalist and the investor. Frequent currency fluctuations have contributed to creating an atmosphere of anxiety and unrest on the European capital market.

The principal private foreign investments in the United States have been from Great Britain, France and, more recently, West Germany. Two of the smaller European nations, Holland and Switzerland, are not far behind.

Each of these countries stands, more or less, for a certain type of foreign investment in line with particular needs and traditions. The British, for instance, tend to follow their own well-proved and well-established business tra-

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ditions and rules when establishing overseas affiliates. The Germans, on the other hand, prefer to work closely with domestic firms and to establish close partnerships with native industrialists. The French tend toward scattering their investments over many industrial and commercial fields without exercising direct or indirect control over these enterprises.

American and British political, economic and cultural ties have always been particularly close despite some stormy interruptions of their friendship. It is, therefore, not surprising that British capitalists own two-thirds of all foreign assets in this country.

They are well established in several important industries: the British control Dunlop Tire and Rubber Corporation; the British and Dutch control the Shell Oil empire; the British, Crosse & Blackwell for food products; Yardley or Unilever for toiletries; and other companies for tobacco goods, phonograph records, newsprint and some building materials.

Dutch industrial interests in the United States are almost as widespread as those of the British. With Indonesia virtually closed to Dutch funds, their capitalists have been scanning the world to find profitable employment for their liquid funds. One of the largest Dutch investors in this country is the internationally renowned Philips Corporation which produces various electronic equipment in its large plant in Mount Vernon, N. Y. Dutch capital is also working in the chemical industries. They have recently been expand-

And On the Other Hand

ALMOST one billion dollars was invested in foreign countries by private American firms and individuals in 1955.

As in other years since 1951, approximately half of the direct capital flow in 1955 went to Canada. Most of this new capital was invested in the petroleum and mining industries, but some went into varied manufacturing and financial enterprises.

Direct investments in Western Europe reached a record amount of close to 125 million dollars during the year. Another 275 million dollars of new investments in the area were also financed out of undistributed earnings accruing from previous investments.

New capital flow to Latin America from the United States remained at the 100-million-dollar level recorded in 1954 and about half of this amount went into investments in manufacturing facilities. The large investments in petroleum and mining companies are financed out of depreciation and other charges against earnings.

Capital invested in the rest of the world was about 150 million dollars in 1955 and went mainly into petroleum.

ing their activity in the production of fine food, liqueurs, etc.

Western Germany's spectacular rise to a first-class industrial and economic power is also felt on the international capital market. As before the war, their main interest is concentrated in the chemical and pharmaceutical industries where Germany's giant Farbenfabrik Bayer has joined hands with an American competitor to set up a chemical plant in St. Louis. Another German industrial enterprise, again in close cooperation with American interests, is producing foam rubber articles in a New Jersey plant.

Speculative French

There is, no doubt, a considerable amount of French capital assembled in this country. But of all the foreign funds, the French assets are the most difficult to trace. French capitalists have been showing little initiative in setting up new enterprises. They reportedly prefer to speculate on the stock exchange and also to keep a large part of their assets as liquid, easily movable cash. Nevertheless, a French concern recently went into the electronics business by joining an American partner in producing electronics equipment for the American market. French funds are also invested in the garment, fashion and food industries although the actual size of the French share in these activities is difficult to evaluate.

There can be little doubt that foreign capital, foreign initiative and foreign business acumen have been and are having considerable and, on the whole, beneficial effects on the progress of American business. If the American industrialist is the undisputed master of organizing mass production for a large market, the European has a knack for producing high-quality products for a limited market of special customers.

Change and improvement

In several American consumer-goods industries, such as the garment industry, the fashion business, candy production, the furniture and household goods industries, European influence has led to far-reaching changes and improvements.

There is one other advantage in foreign participation in American business: most of the earned dollars flow back to the home countries, thus narrowing the dollar gap and enabling them to buy more American goods. In the long run, this may prove to be the most important consequence of increased foreign investment in the United States. For, if such investment succeeds in restoring world trade, all countries—not least the United States—stand to benefit. ■

Reality has changed Mississippi's mind about the need for industry

Dawn on the Delta

by Hodding Carter

ORDINARILY, a can opener does not steal the spotlight from a Presidential election. It is typical of what is happening in Mississippi that on Election Day and throughout the preceding five or six weeks, voters of Greenville, the city of 40,000 in which I live, and of the otherwise rural county district of which it is a part, were far less interested in the Eisenhower-Stevenson race than in a local bond issue which we voted upon on the same day. If approved, the bond issue would mean the location in Greenville of a kitchen utensil manufacturing plant.

The bond issue was for 750,000 dollars to build a plant for the Dazey Company of St. Louis, a long-established and growing firm. The company would retire the bonds over a 20-year period through annual rental payments on the completed building. During that period the building would be the property of the county district, and therefore the Dazey Company would not have to pay property taxes on the plant itself. By thus lending their credit to the company, Greenville and the district would gain a 300-man payroll.

Our voters endorsed Stevenson by a slim margin. They went for can openers by a vote of 4,023 to 165.

This virtually unanimous action may not seem startling in those parts of the country which have been aware for generations of the effect of industrial incomes on general living standards. But less than ten years ago an influential

segment of our citizenry did not *want* any industry. At a cocktail party soon after World War II, one of the guests, a cotton planter, conspicuously avoided me. The reason? Together with a good many other Mississippians, I had been urging our state, county and city to seek industry and, in this way, shore up the economy of a state that had the lowest per capita income and the most one-sided agricultural economy in the country. The planter was afraid that industrialization would mean higher wages for farm labor, and he did not want to have anything to do with payroll-minded people.

A change of mind

Mississippi planters today are as anxious as their urban fellows to diversify our economy and balance it with industry. In my own Yazoo-Mississippi Delta area of Mississippi, a large-scale plantation region whose three to one ratio represents the state's highest proportion of Negroes to whites, the Delta Council, our equivalent of a planters' chamber of commerce, has been authorized by the 14 Delta counties it represents to spend 60,000 dollars in 1957 to attract new industries. The larger communities likewise appropriate factory-luring funds, and the state itself has a now widely imitated industrialization program, known as the *Balance Agriculture With Industry* plan.

Mississippi has changed its mind about industry because of some inescapable realities. Ours is one of the three states which lost population between 1940 and 1950. Low-income white farmers and small-town Mississippians have been finding a better living in the manpower-hungry industrial cities of the East, the Midwest and the Far West than at home. And our largely unskilled Negro farm laborers, driven from the plantations by mechanization—four tenant families out of five have been displaced since 1940—have also flocked to these same industrial cities to stay with more fortunate friends and relatives until they, too, can find jobs.

Perhaps the most significant aspect of this migration is that while the state's over-all population loss between 1940 and 1950 was less than 2,000, an estimated 250,000 Negroes left the state during that period. Mississippi still has the highest proportion of Negroes to whites of any state. But that proportion has been reduced from 45 per cent white and 55 per cent Negro in 1930 to almost 60 per cent white and a little more than 40 per cent Negro in 1956.

Many observers think that a reduction in the ratio of Negroes to

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whites in Mississippi will make for better racial relations. On the other hand, no one in Mississippi believes that it is healthy to lose over-all population. As a result, Mississippians are more united today on the need to achieve industrial balance than they have been on any issue since secession. They believe that the best instrument for industrialization is the state's once revolutionary *Balance Agriculture With Industry* program, which, in its relatively brief lifetime and especially since the end of World War II, has brought more than 300 new factories, large and small, into the state. Most of them are branch plants of non-Southern manufacturers.

Interest and controversy

Had not the BAWI program been operating, and had not the interest and controversy it engendered focused the attention of non-Mississippians and Mississippians alike on the state's industrial potential, the population loss would most assuredly have been far greater. Last summer, Mississippi's Governor J. P. Coleman commented that he didn't know a single farmer in Choctaw, his home county, under 35 years of age. Today, the younger farm men and women are no longer leaving Mississippi. The new industries are being located in communities where they can draw upon the farm labor surplus, male and female, of the adjoining countryside.

What is this *Balance Agriculture With Industry* program which is spearheading Mississippi's industrial revolution? The pre-World War II creation of former Governor Hugh White, a South Mississippi lumberman and small industrialist, the BAWI program operates by state authorization and under rules spelled out by statute. When a community interests a non-Mississippi manufacturer into moving to the area, the state Agricultural and Industrial Board must investigate and certify the stability of the company before the community can vote on a bond issue to build a plant for it. The bond issue itself must be voted upon by at least 51 per cent of the qualified voters, and at least two-thirds of those voting must favor the issue. There are other safeguards and restrictions as well.

Strong medicine

This might seem like strong medicine for a state so individualistic and so opposed to governmental centralization or augmented governmental functions that it does not even have a state police force as such. But White—and the depression—quickly sold Mississippians on the BAWI program; and there is no doubt that it has

been the greatest single force for economic improvement that the state has known thus far. Without it, our two thousand population loss might well have been a hundred thousand or more.

The BAWI program has not been able to halt all migration from Mississippi, especially by Negroes, since most of the Northern-directed new companies have apparently been reluctant to challenge local mores by employing Negroes in other than the lower industrial positions. But BAWI has definitely slowed down that migration. It is also making a significant change in residential and occupational patterns and, obviously, in per capita income. Less obvious is its effect upon social thinking.

Mississippi's hamlets are drying up. Mississippi's incorporated communities are growing. Governor Coleman's Choctaw County farmers have been moving, not simply to the nearest town, but to more distant cities like ours where the kitchen utensil company will provide those 300 new jobs and where a carpet manufacturing

The State of Mississippi

AREA: *47,716 square miles, rank 31st.* POPULATION: *(1950 Census) 2,178,914 (1,188,632 white; 986,494 Negro), rank 26th. Motto: Virtute et Armis (By Valor and Arms).* FLOWER: *Magnolia.* TREE: *Magnolia.* NICKNAME: *Magnolia State.* BIRD: *Mockingbird.*

Rich in natural resources (timber, oil, bauxite, clay), Mississippi has the poorest people in the nation. Its per capita income—$873, as against a national average of $1,770—places the state on the bottom of the economic ladder. Though it has no place to go but up, the rate of its increase is laboriously slow.

Between 1940 and 1950, manufacturing employment rose from 57,000 to 95,000. The hourly wage rate of $1.18—compared with the national average of $1.81—probably had as much to do with increasing the number of manufacturing plants in the state as natural resources. Wages range from an average of $60 a week in the masonite factories in Laurel to $36 in shirt factories in the Biloxi-Gulfport area.

About one in every four dollars of the $1,856,000,000 personal income in the state comes from lumbering. Slightly more than 50 per cent of the state's total land area is forestland, and 43 per cent of all industrial labor is employed in some form of lumbering activity.

A century of one-crop farming exhausted much of Mississippi's soil and led to severe erosion of one-fifth of the farm land, but the state still ranks second in the production of cotton.

It has the dubious distinction of being first on one statistical table: Lychings by state, 1882 to 1954. In the 72 years, 574 persons were lynched (534 were Negroes).

plant, our first BAWI industry established four years ago, is giving jobs to nearly 1,000. These new industrial workers are thinking more like industrial workers everywhere and less like the farmers so many of them once were.

The bottom rung

Of course, agriculture still dominates the state's economy, but it is a different and healthier agriculture. My own Delta region offers perhaps the most conspicuous proof. Twenty years ago the agronomist and the economist who urged diversified farming, including cattle, soy beans and rice, would have been laughed at—for cotton was the be-all and end-all of our farmers. The visionary who predicted the disappearance of the mule and the hoe hand would also have been mocked. But today the mule is useful only as a provider of the prime ingredient in dog food; a quarter of a million Negro hoe hands have left Mississippi; and cattle, soy beans, rice and other grains together bring more money to the Mississippi farmer than cotton. And that farmer is at long last learning that trees can be a profitable crop, too.

It is possible today—even natural—to be an optimist in a state which, by almost all the standards by which we Americans judge our culture and national worth, is still at the bottom rung. For with the rise in farm income, the diversification of agriculture, the industrial growth and the trend toward racial redistribution of population, Mississippians today are increasingly receiving those advantages which they have lacked or have enjoyed to a far smaller degree than have their fellow citizens elsewhere.

Spirit of change

Economic blight is still apparent. But the overrun hill farms and the abandoned tenant shacks of the plantations also give mute evidence that an old way of life is ending. The larger communities—the state capital of Jackson, Greenville, Biloxi, Meridian, Gulfport, Natchez, Vicksburg, Hattiesburg, Laurel, Clarksdale and many of the smaller towns—no longer lie in the shadow of the bottom rail. These communities reflect a spirit of change that is alien to the tradition of magnolias and moonlight. The new schools and hospitals and parks, the homes and highways are reminiscent neither of *Tobacco Road* nor of the "good ol' days befo' de war."

If Mississippi remains an American frontier in the less happy connotations of that abused word, it is also a frontier of hopeful experiment in a more profitable and purposeful mode of life than the fathers of its two million citizens ever knew. ■

Mutual funds cannot make anyone rich overnight, but they make up with steadiness what they lack in speculative color and dash

Slow—but STEADY

by Robert E. Clayton, Jr.

THERE was a time when "investors" were assumed to be men of wealth who spent their working hours overseeing great sums of money at work for them on the stock market, in commodities, real estate and other properties. Today there are still many wealthy people doing business at the same old stand, but the word "investor" no longer implies an individual with comparatively large financial assets.

Many people who are something less than wealthy have acquired ownership of American business and industrial firms. The broader distribution of wealth and income during the past 25 years has made this possible. Many factors have encouraged hundreds of thousands of wage and salary earners to invest in equity securities—among them, the development of employee stock purchase plans, employee pension funds, the New York Stock Exchange's Monthly Investment Plan and, especially important, open-end investment companies, popularly known as mutual funds.

An open-end investment company, briefly, is a trust or corporation established for the sole purpose of investing its shareholders' money in a diversified portfolio of corporate securities. By combining the money of its thousands of investors, the open-end investment company is able to spread the risks and increase the opportunities by investing among many securities. Income from these securities, as well as any capital profit from their sale, is distributed to the mutual fund's shareholders after operating costs have been deducted.

Large numbers of open-end investment company shares have al-

ways been owned by wealthy investors. In the past few years, however, more and more investors of modest means have come dramatically into the picture, acquiring some equity investments through what is known as the mutual fund accumulation plan.

The accumulation plan holder, the investor who makes monthly or quarterly purchases of shares, is usually investing from current income and does not have sufficient cash reserves to make a single, large investment. But he automatically receives the benefits of a formula for investing in stocks known as dollar-cost averaging.

For example, an accumulation plan owner might invest 100 dollars on the first day of each quarter of the year. If the prices per share on those dates are $20, $25, $12.50 and $20 respectively, the 100 dollars on each occasion will buy 5, 4, 8 and 5 shares, a total of 22 shares. Dividing 22 into the total investment of 400 dollars gives an average cost to the investor of $18.18 per share, well below the average price of $19.38 on the purchase dates, and considerably below the peak price of 25 dollars. There is a possibility, of course, of loss if the plan is discontinued and the shares are sold at a low point in stock market price levels.

There are about one and a quarter million shareholders in the nation's 135 open-end investment companies. Of these, more than 300 thousand are accumulation plan holders, a significant figure when related to the eight and one-half million individuals who own securities in publicly held corporations, including open-end investment companies. This means that four per cent of all American investors are mutual fund accumulation plan holders—a remarkable acceptance of accumulation plans, which became an important facet of the business only seven years ago.

"Typical" plan holder

A recent shareholder survey by the National Association of Investment Companies provides a statistically average profile of the men and women who make up the "typical" accumulation plan holder. The study clearly indicates that there is a substantial base on which public ownership of American industry can be broadened. The "typical" accumulation plan holder is 41 years old, has an annual family income of $6,375, holds mutual fund shares valued at $1,750, cash savings of $1,825 and $12,375 worth of life insurance in force. The "typical" accumulation plan holder also owns individual

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corporate stocks valued at $1,825 and invests 49 dollars per month on a regular basis in mutual funds. His primary investment objective is to build toward future retirement income.

Economically speaking, this is not the picture of an exceptional individual. Rather, its particulars fit hundreds of thousands of other Americans who may some day own a share of American business.

The postwar growth of mutual funds is little short of phenomenal. In 1946, the net assets of the 74 funds which were then members of the NAIC stood at one billion, three-hundred million dollars. Today, the assets of the Association's 135 member funds are just under nine billion dollars. In 1946, investors were purchasing shares at the rate of 30 million dollars' worth a month. In 1955, the monthly rate rose to 100 million dollars. In 1956, sales climbed to 112 million dollars per month.

Grass roots participation

The growth of open-end investment companies, while phenomenal because so much of it stems from "grass roots" participation, is, nevertheless, in other respects in line with the nationwide, postwar economic growth. In the past ten years the market value of preferred and common stocks listed on the New York Stock Exchange has increased from 73 billion dollars to 207 billion dollars. Therefore, while the growth of mutual funds has been dramatic, so has the expansion of the entire securities market. A similar growth picture extends, in varying degrees, to savings and loan associations, savings banks, U. S. savings bonds and life insurance reserves.

Then what significance, if any, can be attached to the size of open-end investment companies today?

Stabilizing influence

Growth of any vital financial institution implies potential impact on the economy of the nation. Besides developing important and, in many instances, new sources of needed equity capital, the mutual funds have also proved, time after time, that when security prices dropped sharply they were a stabilizing influence in the nation's securities markets.

For example, during the week following President Eisenhower's heart attack in September of 1955, stock prices fell sharply. Despite their right to redeem their shares at any time, mutual fund shareholders stood by their investments. In fact, sales of new shares of mutual funds for that week actually exceeded redemptions, thereby supplying the funds with net new money. And during that sharp drop in common stock price levels, the mutual funds were net buyers of portfolio securities. This

means that rather than accentuate a market trend, any impact from the funds' activities was in the direction of helping to prevent further decline of the price levels.

There is a reason why mutual fund shareholders do not create a wave of redemptions when the prices of individual issues or price levels as a whole start to fall.

Important ingredient

By their very nature, open-end investment companies are not intended to provide quick, short-term profits. Their shares are designed to be an important ingredient of a long-range financial program, and investors properly view them as investments aimed at reaching and maintaining long-range financial goals over a period of years. Because of this, shareholders seem to be little concerned about day-to-day fluctuations in price levels. They are inclined to let the fund managers worry about price levels and make all portfolio decisions.

"How well do investment companies do by their shareholders?" is a question commonly asked. Since the performance records of individual companies are available to all prospective investors, anyone can make up his own mind as to which company is doing well and which is not. However, one must remember that investment objectives differ among funds, with varying degrees of emphasis placed on capital growth, income and capital preservation. Because of these differences in investment policies and in objectives, to compare the performance of a specific investment company with stock market indices, individual securities or other mutual funds is often invalid and misleading. For example, to compare the performance of a balanced mutual fund, which is invested partly in bonds and preferred stocks, with a common stock index of market price levels would be similar to comparing apples against eggs.

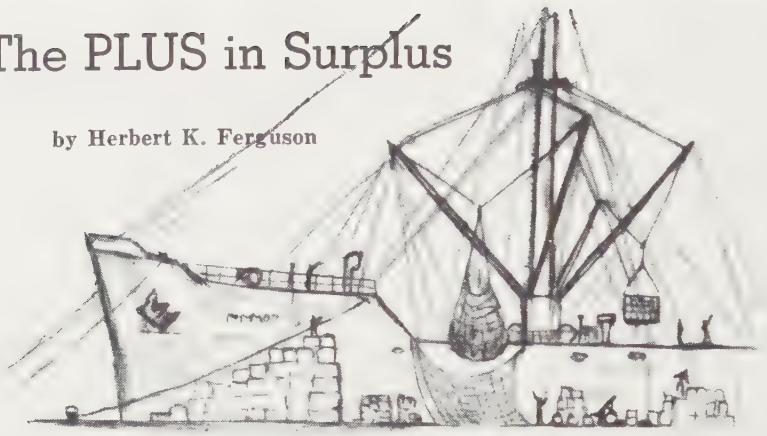
The only accurate yardstick with which to measure the performance of an investment company is to evaluate the degree to which the particular fund achieves its stated objective.

It would be a fair question, at this point, to ask whether the broadening of public ownership of common stock will continue through the growth of open-end investment companies. Perhaps the answer can be found in one of the cardinal rules of our business civilization: the merit of a product or service is best measured by its public acceptance.

There are no indications to date that the public is unwilling to accept the opportunity afforded by mutual funds to share in the growth of American business and industry. ■

The PLUS in Surplus

by Herbert K. Ferguson



America's huge farm surplus is being used to aid underdeveloped countries

ALCHEMISTS who sought to transmute base metals into gold during the Middle Ages were only slightly more befuddled than the experts today who are trying to turn surplus farm commodities into cash. Modern research may one day solve the old quest of alchemists, but it is unlikely that anything will help to transform the U. S. government's eight billion dollars' worth of surplus agricultural produce into useful Treasury assets.

The problem of unmarketed produce from America's farms is, unfortunately, not a new one. Surpluses have periodically plagued the nation's economy for almost a century. Depressions, wars, changing patterns of foreign trade, monetary disruptions and high price supports have contributed their share. Yet, never have farm surpluses reached the magnitude of the stocks now held by the federal government. The cost of storage charges alone is nearly one million dollars a day.

Legislative efforts to "solve" the surplus problem have been confusingly varied and complicated. Always lingering in the back of many minds, however, has been the idea of "exporting the excess" so that our surpluses can serve a useful purpose abroad. Highly complex schemes based on this notion were elaborated during the 1920s. They all proved unworkable, not because they were impractical but because they were unrealistic. For the most part, customers abroad lacked incentives to buy, and dollars to pay for, our surplus commodities.

The problem of surpluses disappeared with World War II. During those years agricultural production, even though it had expanded tremendously because of technological improvements, high prices and exceptionally good weather, was barely able to keep up with soaring demands. After the war, massive U. S. programs to aid the shattered economies of Europe continued to draw heavily on farm commodities not needed here.

By 1954, however, United States agricultural exports had fallen to their 1930 level, while increased production in Europe and elsewhere rapidly overcame shortages. Meanwhile, our own production rates continued to rise, and unmarketed, price-supported commodities were diverted from commercial channels into government warehouses.

High price supports encouraged a flood of farm produce which, by 1954, was overflowing the nation's storage bins. The political and economic embarrassment was unbearable. The country's lawmakers concentrated on methods to reduce the vastly expensive investments in surpluses. One outcome, in July 1954, was Public Law 480—a remarkable program of action. By March, this law will have resulted in the export-sale of surplus farm commodities valued at three billion dollars, a sum greater than the value of all United States agricultural exports during 1954.

Essentially, what PL 480 does is to facilitate the export, by private traders, of surplus agricultural commodities to certain countries. Under special international agreements the United States will, within certain limits, accept local currency in payment for exported surplus commodities. In this way a foreign country need not draw on its dollar holdings in order to settle the accounts of its importers who purchase surplus farm commodities from the United States.

Cotton shipped to Italy under PL 480, for example, is bought from the United States government by an American exporter. His Italian customer pays the Bank of Italy the lire equivalent of the cotton's dollar value. The bank, instead of drawing on its New York dollar account to pay the U. S. exporter, deposits the lire in the United States Treasurer's lire account in Italy. Meanwhile, the Treasury mails the American cotton exporter a check in dollars due him for his Italian sale.

The payment for American commodities in local currency rather than in dollars obviously benefits the receiving country

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since it helps to conserve precious dollars. In order to prevent countries from slashing dollar imports and paying entirely in deutschmarks, pesetas, dinars, etc., agreements with the importing country require maintenance of the usual volume of dollar purchases. Quantities are specified in tons and bales on the basis of imports in previous years.

Aggressive selling

It is obvious that this method of aggressive selling could arouse wirespread resentment against the United States by smaller exporting countries. But while the United States seeks to maintain its "fair share" of the market, each agreement leaves sales opportunities open for other exporting nations. So far, complaints have been minor.

The United States currently maintains 69 such agreements with 30 countries, most of them the so-called underdeveloped nations. Each agreement generally includes several surplus commodities. Yearly renewal of agreements is customary, although the record-breaking 305-million-dollar Indian agreement signed last August will run for three years.

As transactions under PL 480 decrease surplus stocks in the United States, our Treasury's credits of foreign currency increase. In what way are they being used? Frequently three-fifths or more of a year's total local currency accumulation is loaned to the participating country at low interest rates for its economic development. Most of what remains is used for purposes that would ordinarily require direct dollar expenditures by our government. These include the maintenance of diplomatic establishments, housing for military personnel and their families, or the purchase of strategic materials. A small fraction usually goes into cooperative marketing projects designed to increase the total demand for farm commodities. Rarely is any local currency *given* to the country.

PL 480 is scheduled to expire on June 30, 1957. Even if it should be renewed by Congress, it could not result in the exporting of our entire remaining surplus. For new surpluses are being piled up every day. The problem must be attacked from two fronts simultaneously: one aimed at reducing the size of the present stocks to a point of manageable reserves; the other at preventing additional surpluses from accumulating. The Soil Bank, combined with flexible price support programs, is aimed at making progress on the latter front.

Meanwhile, what are the major effects of the multibillion-dollar PL 480 program on the United

States, or on the welfare of participating nations? One fact stands out clearly: the loss to the Treasury—and to the taxpayer—in the disposal of surplus farm commodities is reduced because of PL 480. Every bushel of corn sold for francs is one less given away; every pound of butter sold for rupees is one less lost through spoilage.

Of even broader significance is the furtherance of U. S. foreign policy objectives. PL 480 is instrumental in generating loan funds of substantial size. In many underdeveloped countries which lack capital, these funds permit economic expansion. Especially attractive sale terms are made when both market development and economic expansion are closely linked. In this way the rewards gained through PL 480 sales are doubled.

Certain dangers, however, underlie this program. Recipient nations may tend to regard the PL 480 arrangement as permanent. If they do, they will postpone the convertibility of their currencies to dollars and discourage the purchase of American agricultural commodities on the open market. A foreign official gave away the prevailing attitude when he was heard to say: "Why should we spend dollars when we can spend our own money and then have it loaned back to us?"

A second danger is the impact that repayment in dollars of these loans will have on countries with a perpetual dollar shortage. Such countries are precisely the ones with which PL 480 agreements are most frequently made, and they may cry "Uncle Shylock" when repayments of principal fall due.

The third danger is that government export programs, whether they are direct subsidies (as with cotton and wheat) or indirect assistance (as PL 480) tend to prolong American agriculture's dependence upon government support. "We are neither happy nor proud of the fact that our government is involved so deeply in the direct handling of farm products," Assistant Secretary of Agriculture Earl L. Butz said this winter. "The actual exporting of farm commodities should be a matter of dollar trade through private enterprise," he continued. "Our surplus programs should be looked on only as medicine to make the patient well."

Basic health will be restored to American agriculture when the government's role is reduced to facilitating adjustments which will eventually bring supply and demand into a reasonable price relationship. When this occurs, "surpluses" will become commercial working stocks. And Public Law 480 will become history. ■

Economics in Action

The dust settles

A runaway inflation in the U. S. economy seems less likely than it did a few months ago. Although inflationary tendencies persist, there is generally less alarm, now that certain deflationary trends to counterbalance them are showing up more clearly.

Prices, wages and inventories

Wholesale prices are on a slow rise. The steel industry, a primary indicator, has raised its prices on steel plates, now in heavy demand especially for more oil tankers, and on other items that require special processing. Retail prices are climbing—the Consumer Price Index has advanced 2.4 per cent in the past year. Buying power is also rising, partly helped by the increasing number of wage contracts with cost-of-living agreements based on the Index, and consumers are still spending. On the other hand, Christmas buying did not meet retailers' expectations, and inventories are being pared down. Consumer spending is expected to continue around the present level, although it might slowly trail wages and prices as they move upward.

Liabilities and assets

Consumer borrowing has hit an all-time high. The buying public is currently in debt for over 40.6 billion dollars, which includes installment credit, charge accounts, service credit and single-payment loans. However, credit repayment is now about in balance with new borrowing, which makes this astoundingly high debt less alarming.

Demand and supply

Production is also increasing in all durable goods, although at a slower pace, partly because inventories are being decreased. Still, many strategic industries

consider their capacities now equal to present demand —with the exception of steel, which has yet to catch up with the effects of last summer's strike, and expects to be short in some lines throughout the year.

Losses, profits and expansion

Business is less disturbed by declining inventories than by the slower rate of productivity increase in relation to labor costs. Since wage increases are not consonant with productivity, they tend to increase costs, then prices, eventually squeezing profits. Combined with the Federal Reserve policy of keeping credit costs high, this relative decline of productivity tends to slow down expansion. A number of smaller companies have already curtailed or postponed expansion plans. Still, the over-all expansion trend is up, and expectations are that it will continue at the 1956 rate, the highest in our history. Business anticipates an almost-certain growth in population and is expanding gradually to service this larger market; it also recognizes the need for continuing research and the development of new resources; and it has real confidence in the future.

Bigger budget-balanced

Government spending is bound to increase. The national budget to go into effect this July 1 may rise by three billion dollars, to accomodate increased expenditures for defense, interest payments on the national debt, atomic energy development and the farm program. On the other hand, the budget is expected to balance for the third straight year (due to increased revenues and no substantial tax cuts) which will tend to dampen inflationary tendencies.

Minor disappointments

On the other side of the ledger, housing is still sluggish, attributed by some to higher building costs plus tight money, by others to having met the peak demand through recent record-breaking construction. New housing spurts are unlikely this year, but construction in general, with an assist from business expansion, will probably hold its own. Auto sales have

Great expectations

also been somewhat disappointing. Increasingly tight credit is said to be the reason, but many auto dealers think it is due rather to the high installment debt for 1955 models, and they expect sales to pick up as this is repaid.

Altogether, the expectations are for the biggest business year ever, although increases will be smaller than in 1956 in the nation's total output of goods and services. What seems to be happening is a slow leveling off of the sharp upward curve. A more modified pace of expansion in an atmosphere of greater competition apparently will be the 1957 trend.

* * * *

State of the Union

WASHINGTON—The President's State of the Union address and subsequent series of special messages were, as expected, fairly routine. The nation faces the same problems today as it has for the past two years: how to maintain stability and growth in the domestic economy; how to ease so-called racial tensions; how to provide for the nation's physical safety; and how to deal with the ever more complex world situation in the context of a possible hydrogen bomb war. There could be no controversy over the President's well-balanced outline of objectives. But how the objectives are to be attained, as the administration's proposals become more specific, will provide plenty of controversy.

drought relief

The President's call for a 76-million-dollar fund for emergency drought relief is a case in point. Few will argue against the wisdom of doing something immediately to help the six southern plains states, but, obviously, the 76 million dollars is only a short-term stop-gap measure. What eventually will have to be considered are a series of long-term projects to bring water into an area which is not going to get

any further help from nature. Will federal efforts to finance such projects represent the same form of "creeping socialism" that TVA was dubbed to be by some? If so, who can initiate a vast program of reclamation—and do it so well that the federal government will only have to be a "willing partner," a term used by the President himself.

party politics

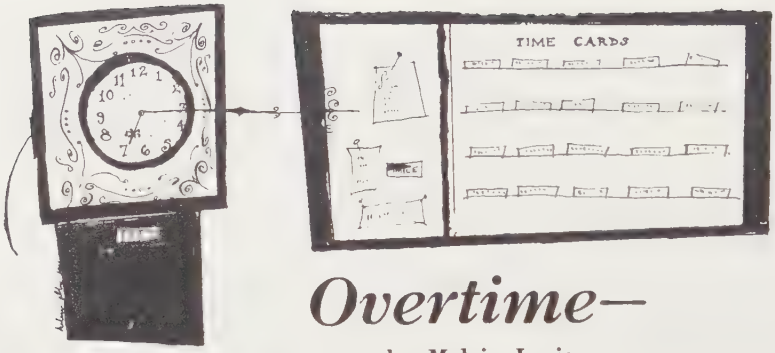
Senator Knowland's sudden announcement that he would not seek reelection at the end of his present term set off a wave of speculation about his political future. The latest: Sen. Knowland will *not* try for the Presidency in 1960. He *will* seek the governorship of California and help Vice President Nixon get the Republican nomination for President, provided that the Nixon forces help him in California.

political tensions

The "new" Middle East policy has been considerably criticized because it does not include specific proposals for the solution of political tensions within that area. What is sometimes overlooked is that any attempt to spell out how we propose to handle the Arab-Israeli problem, for example, would have the effect of raising the ire of one side or the other, or of both. What the administration wants is a free hand to impress everyone concerned with the prospect of vast general economic improvement—to stimulate interest in such a prospect to a point where no one in the area will want to use a threat of force.

Nasser and Russia

In this connection, Colonel Nasser still remains to be dealt with. He continues to dictate to the United Nations and holds Soviet intervention as a trump card in his dangerous game of irresponsible nationalism. It is hoped that a mandate from Congress to use troops, if necessary, in the Middle East will deflate reliance on Russia. If there is a better way to start solving the Middle East puzzle, no one has suggested it. ■



Overtime—

by Melvin Lurie

What is it and how does it affect the economy as a whole?

LAST YEAR the Bureau of Labor Statistics for the first time introduced an important new economic indicator among its various business statistics: the amount and value of overtime work.

Thus far, only figures for manufacturing during the first six months of 1956 have been published, but even from this it is clear that overtime hours play an important role in our economy. In manufacturing, for example, almost seven per cent of all hours worked were overtime hours. Since overtime is generally paid at time and a half, this means that 10.5 per cent of gross wages came from overtime work.

Here is an important component of our incomes about which we know relatively little. The purpose of this article is to take a long, hard look at these figures and try to find out what they really mean.

What is overtime? Economics textbooks would define it as the extra payment, usually at some multiple of the hourly wage rate, for hours worked in excess of the *regular* workday. But what is the *regular* workday? Who or what establishes it? Is it a period of time set by collective bargaining agreements; by employers; by the government? I think it is none of these except in the immediate short run. Over the long haul, the length of the regular workday depends upon two things: our desire for more products, and our productivity.

Eighty years ago, the regular workday in many industries was 12 hours. This meant that productivity was so low relative to the effective demand for goods that it took that amount of labor-

time to produce the goods and services for which there was a ready market. Since then, increases in productivity have made it possible for us to supply a vastly expanded market with an official workday of only eight hours, at least, in most cases. Indeed, the six-hour day would probably be in effect today if, during the last two decades, we had not increased our standard of living substantially—that is, if we had not increased our living standards almost as fast as our productivity.

The luxury of choosing between more leisure and a higher standard of living is one of the unique features of highly developed industrial economies like ours. In the United States and other Western nations, moreover, this decision is not made for us by state administrators. Each one of us has some say in the matter—whether as union members, consumers, businessmen, investors, and so on.

Of course, the government has not always allowed labor productivity and the market to set the regular workday. Eighty years ago, when the demand for goods was increasing very much faster than our productivity, the market tended to set a regular workday that human beings simply could not sustain, for long, without some injury to health and welfare. In those days, a regular workday of 12 hours often afforded little more than bare subsistence. Even so, it was necessary for an outside force like government to compel a sacrifice of some production in order to protect the health and physical well-being of workers. President Van Buren took the earliest action in this direction when, in 1840, he ordered the ten-hour day for all workers in government-operated naval yards. Although the railroad workers achieved an eight hour day in 1916, it was not until President Franklin D. Roosevelt's second term that Congress finally legislated an eight-hour day for most of the nation—and that was largely a depression measure aimed not so much at reducing the regular workday for health and safety purposes but to divide a limited amount of work among as many workers as possible.

Today, the regular workday is generally set at eight hours, and any firm employing workers for a longer period without granting special overtime pay is subject to legal prosecution. But while the maximum workday is set by law, actual working hours vary widely among different firms and industries. Generally speaking, teaching, banking and most white-collar workers have shorter working days while manufacturing, trans-

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portation and communications have longer working days.

By differentiating between a short regular workday and a long regular workday, we can more easily distinguish between true overtime and overtime that consists of the extra hours associated with a long regular workday. True overtime is an extra payment for hours of work that impose additional burdens upon the employee. This kind of overtime is no different from any other premium payments, like shift differential, night work, Sunday and holiday work, and so on. It usually arises when there is an unpredictable increase in demand for a firm's product—an increase that can only be met by having the company's regular employees put in extra hours. These extra hours of work would never be accepted at the regular hourly rate because it costs workers extra inconvenience to adjust their schedules to this unexpected and undesired work. Therefore, the company must pay a premium on regular wages to compensate workers for the unpleasantness of longer (and inconvenient) hours.

Part and parcel

Other premium payments, such as special pay for working long hours, are often classified as overtime. But such a classification seems to be erroneous, since the demand for the product of this kind of labor is completely predictable. The employees in such firms well understand that their regular workday is exceptionally long. Under such circumstances, the premium the workers get is part and parcel of the day's earnings and is necessary to bring the daily earnings of such workers up to the competitive rate for the job.

When is it profitable for a firm to finance extra production through overtime? Obviously, this is a matter of balancing the expected revenue of additional sales against the extra costs of making that sale. Since premium rates must be paid, labor costs are clearly the most important cost factor here and, in order to be worth while, the sale would have to be an immediate, all-or-nothing proposition. For, if the product can be utilized later, then it could probably be produced on regular labor time. Thus, true overtime arises when the firm finds it less expensive to pay premium rates than to incur the greater costs brought on by some emergency situation such as an unexpected increase in orders or a bottle neck in production. In any case, true overtime is usually paid for work that cannot be predicted in advance.

What tends to increase the actual amount of overtime hours worked in the economy as a whole?

If it can be assumed that the great majority of workers are covered by overtime clauses, then overtime will occur whenever there is an increased demand for products without a corresponding increase in technology or in the size of the labor force. World War II is a good example of such a period. The tremendous war-time demands placed upon our productive facilities resulted in a situation of "national overtime." After 1942, a constant labor force was asked to increase production at literally any cost. Under such circumstances, overtime became an instrument of national production policy.

Time of the essence

Usually, the individual firm has some flexibility in adjusting to increases in demand. Unless its work is not very specialized, it can generally draw employees from other companies in similar lines. In the short run, however, a firm can rarely get the necessary labor in time. And time is of the essence here. Often, if the firm cannot get additional outside labor within a day or a week, it will be unable to meet sudden demands. In the short run, therefore, the only way the firm can meet unanticipated demands is to pay its regular employees overtime for extra hours of work. In the long run, of course, some hiring of additional workers (or some shift to further mechanization) is both profitable and probable.

Thus far, I have tried to make two points. First, overtime is a relative concept and has as its base the "regular work day" which, in turn, depends upon our desire for products and our productivity. Second, I believe that overtime has two meanings: one which arises from uncertainty in consumer demand; and another which is part of the long, regular work day. If my notion that overtime makes sense only when it is based on uncertainty is accepted, then we can conclude that the value of overtime hours is vastly overestimated.

Overtime may be looked upon as a thermostat that registers changes in demand within the economy. Rapidly changing overtime in given industries indicates an economy that is dynamic, progressive and productive. An absence of fluctuating overtime payments, on the other hand, would indicate a stagnant economy. ■

Income and Overtime

IN THE spring of 1956, ". . . a drop of one hour in the average amount of overtime each week would have represented an estimated direct income loss of about two billion dollars at annual rates.

—*Monthly Labor Review.*

George Garvy

Senior Economist,
Federal Reserve Bank of New York

The Role of The Federal Reserve

Q *There has been a lot of talk lately about inflation, which most of us define as a condition where we have money increasing at a faster rate than the supply of goods. Does this accurately describe the current situation?*

A Not quite. The main characteristic of the present situation is that of strong and rising demand pressures pushing against existing capacity. This capacity cannot be increased rapidly enough to satisfy all the demands of the economy. As a result, competition for all resources—and particularly for labor—has pushed up wages and some other costs more rapidly than productivity. Since the war, only about two-thirds of the increase in manufacturing unit labor costs has been absorbed by increased productivity. Indeed, one of the main economic problems facing us today is the need to control such cost increases. If we do not, we are going to have a situation where unit costs will rise continuously. And that would mean a continuous inflation.

Q *On what information does the Federal Reserve base this analysis of the situation?*

A Our analysis is based not only on statistics, but also on up-to-date data from businessmen throughout the twelve Federal Reserve districts. It covers all areas of economic activity, although our main concern is with credit and the flow of capital funds into investments. At all times, we try to identify those factors which contribute to further

expansion as well as those which may represent potential economic soft spots.

Q *What are you particularly on the lookout for now?*

A Right now, we are watching situations where speculative build-ups in inventories or unusual demand pressures might lead to inflationary price increases or unsound credit practices.

Q *What particular kinds of demand do you have in mind?*

A Well, housing, for example—especially construction—has been a very important factor in the expansion of business since the end of the war and has contributed substantially to the growth of private debts. Indeed, the growth of mortgage credit has been the most important component of the postwar credit expansion. Naturally, we have been watching developments in this field carefully, even though in recent months residential construction has shown weakness.

Q *What are some other aspects of the current economic picture which should be watched?*

A In general, price developments are an important area to watch. In recent months there have been some signs that prices have edged upwards after several years of relative price stability. Since price stability is an important ingredient of over-all stability, this certainly bears watching.

Q *Well, what can the Federal Reserve do about these soft spots?*

A As you know, the main responsibility of the Federal Reserve System is in the field of money and credit. But in order to understand current developments, we have to look beyond the credit sphere and examine the real economic forces behind it. What appears to be a situation of "tight money" is nothing but the monetary reflection of the keen competition for physical resources. Not all demands can be justified right now because of the inadequacies of the available resources.

Q *On the other hand, a number of business groups have recently criticized the Federal Reserve's tight money policy which, they claim, is limiting our rate of economic expansion. What do you think?*

A The rate of economic expansion is limited by basic economic forces —such as the availability of resources and the rate of technological progress. The scarcity of money to which you refer stems from the

fact that our rate of saving is not sufficient to accommodate all the competing demands of business, of consumers and of the various levels of government. These three groups all compete for a limited amount of saving. Under such circumstances, to increase the money supply through credit creation can only result in price increases. It is unlikely to draw unused resources into the economic process. Now, whenever an increase in the money supply results in an overtime economy—that is, an economy where additional resources would have to be drawn in at premium prices—then a general price rise will follow. That is what all of us want to avoid. Price stability is a necessary ingredient in over-all economic stability.

The need for coordinating general with specific policies

Q *Yet, some groups, such as small business and the housing industry, have been particularly hard hit by the current so-called shortage of money. Do you think that it is possible to help these groups without defeating the primary objective of Federal Reserve policies of preventing runaway inflation?*

A Our economy is so complex that any general policies pursued by the Federal Reserve are likely to affect some groups more than others. While it is the main objective of Federal Reserve policy to contribute to over-all economic stability, we recognize that at certain times and in certain areas there may be a need for coordinating monetary policies with other specific government policies in limited fields such as housing, agriculture, etc. This can be and is being done. Specific programs do not need to interfere with the overriding objective of our national policy, that of maintaining maximum employment and price stability.

Q *How effective can the Federal Reserve be in coping with this kind of inflation? Do you agree with those who say that monetary controls, by themselves, are not enough?*

A There is a good deal of truth to this contention. Federal Reserve System action is focused on the field of credit. To the extent that excessive demand is financed without recourse to credit, the ability of

the monetary authorities to control the amount of aggregate demand is limited. Also, certain price increases stemming from the process of collective bargaining or from federal farm and housing programs are not easily manageable through monetary policy. Even so, the monetary policies of the Federal Reserve can—and they do—influence price stability.

Q *Well, are the monetary powers of the Federal Reserve adequate to cope with the present situation? For example, should the Federal Reserve be given powers over consumer credit?*

A There have been various suggestions for increasing the powers of the Federal Reserve System in specific areas of credit. At the request of the Council of Economic Advisers, we are at this moment studying the entire field of consumer credit controls. It seems to me, however, that there is no need to add, at the present time, to the range of the various control powers already exercised by the Federal Reserve System.

Q *Do you feel that something should be done to achieve greater coordination between the Federal Reserve's policies and the economic policies of other government agencies?*

A Some people who have more faith than I in administrative reforms have advocated the creation of more coordinating agencies. I do not believe that the creation of new agencies will necessarily result in better coordinated policies. Certainly, the lack of consistency in some of the previous years was due largely to the absence of stated policy rather than the absence of agencies to coordinate policies.

Q *Thus far we have discussed the role of the Federal Reserve from an essentially negative point of view, that is, how it can check inflation. What about the positive side of Federal Reserve policies? How can these encourage a healthy economic climate?*

A I would say that mainly it can do this by insuring an economic climate which generates a feeling of confidence in the growth potential and fundamental stability of the American economy.

Q *Do you feel that we should be concerned over the rate of consumer credit expansion?*

A Consumer credit makes a very important contribution to widening the flow of goods to consumers. It thus helps to raise the standard of living of the entire population. However, consumer credit may also be an unstabilizing force if it adds to purchasing power at a time when there are other competing pressures on the available supply of goods. Right now, with our full employment economy and continuing pressure on costs, I do believe that further expansion of consumer credit is likely to add to the other inflationary pressures on prices.

Backlog of unfilled needs in school and highway construction

Q *What role does the supply and demand of investment funds play in creating such a climate of confidence?*

A One of the underlying forces of economic strength in our economy is a very high level of business spending for plants and equipment. This spending is essential for economic progress, not only because it modernizes and extends our productive machinery, but also because it contributes to lower production costs through the use of superior equipment. At the same time, with our rising standard of living, the demand for houses, automobiles and all types of consumer goods has also been rising. We have a very substantial backlog of unfilled needs in school and highway construction. As a result, demands for financing all three types of capital formation—business capital, consumer capital and government capital—are very large. To the extent that business has to supplement internal funds through borrowing, a large part of business capital formation is financed through long-term borrowing. We have some evidence that in recent months some expenditures that should have been financed by long-term credit have spilled over into the banking system and thus have been financed through short and medium bank loans. Basically, the only cure for the current shortage of investment funds is an increase in savings—both personal and business savings.

Q *What can the Federal Reserve do to contribute to this increase in savings?*

A The allocation of savings funds among competing users is a function of the market. Increasing pressures on a limited supply of savings have manifested themselves in rising interest rates. The contribution

of the Federal Reserve in such a situation is to help the smooth operation of the credit system and of the capital market.

Q *Do you think that the Federal Reserve has succeeded in doing this during the past ten years?*

A On the whole, the performance of the Federal Reserve System in the postwar period has been satisfactory—not only in dealing with the problem of inflation, but also in dealing with the numerous problems that have arisen during recessions. While this is heartening, it is no cause for complacency. After all, we have only had two rather mild recessions since the war, neither of which forced us to cope with the accumulated forces of a major contraction in output and employment. Most economists agree that it is easier for monetary policy to restrain excessive demands than to achieve an increase in demand in times of business recession or depression. Certainly, monetary policy by itself cannot do the whole job. It must be supported by and coordinated with a wide range of government and business policies aimed at increasing demand and output.

Q *So you would say that at a time like the present when demand is pushing against available resources and causing cost increases, monetary policies are likely to be most effective?*

A Yes, most definitely. On the other hand, it is important to remember that one of the best ways of avoiding a disastrous deflationary spiral is to prevent the development of excessive inflationary pressures. The monetary authorities can do this not only by stretching out demand over a longer period of time, but also by preventing weaknesses in the credit structure from developing. History shows that there is a close relationship between the excesses of a runaway boom and the sharpness and duration of subsequent periods of adjustment. It is true that the most crucial task of monetary authorities is to check the final stages of a period of expansion so as to prevent a runaway boom from developing. Our experience with the business recessions of 1949 and 1954 show, however, that the Federal Reserve possesses enough flexibility to relax such restraints when conditions warrant it in order to encourage an increase in spending and thus offset contracting forces in the economy.

Q *Thank you, Dr. Garvy.* ■

Everyday Economics

ALTHOUGH millions of children have not received their second or third shots of the Salk vaccine, supplies are piling up. Public Health Service officials estimate that seven million doses are now available. President Eisenhower has urged that the vaccine be used before summer, the next polio season.

Enemy number one

ACCIDENTS kill more children than the next seven leading causes of mortality combined—pneumonia, cancer, leukemia, tuberculosis, heart and kidney diseases and infectious diseases like polio. Every year in this country there are about two million child accidents requiring medical aid. The three most common causes of accidents in the home are falls, poisoning and burns. Disorder, polished floors and scatter rugs, worn carpets and unguarded stairways cause the falls. Poisoning comes not only from the medicine cabinet but also from the kitchen shelves. And burns, from the usual—matches, stoves, cigarettes, but now also from the added hazard of inflammable clothing, which is involved in over half the cases reported.

Spare the ashes

WOOD ashes from your fireplace make a valuable plant food. Sift out the charred wood and store them in a dry tight container to keep for the gardening season.

No innocence abroad

THE American Automobile Association has recently published a small pamphlet chock-full of exactly the kind of information that travelers abroad will need: how to get a passport and visa, how to tip, anticipate climate, translate dollars into foreign currencies, choose a wardrobe and

the right electric appliances, order a French meal, gauge clothing sizes, select wines, tell time on board ship and in foreign countries, and, finally, how to get home unscathed by Customs. The booklet, *Here's How*, is available free from the American Automobile Association, which has affiliated clubs in principal towns and cities of the U. S.

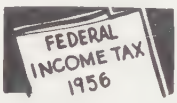
Man's best friend

AND SPEAKING of traveling, dog owners planning to travel with their pets should know that, to protect local pets, most states require a certificate of health or an anti-rabies vaccination certificate, sometimes both. For the most part, pets must be kept in carriers or leashed, except in compartments, sleepers and parlor cars, and only seeing-eye dogs are allowed in dining cars or public areas. Dogs must be crated for plane travel—most take well to the air. Animals shipped by train go only in cars with someone to look after them, and on ocean liners they are kept in separate kennels. When shipping an animal, attach a note to the crate giving the pet's name and feeding and handling requirement, and be sure someone is prepared to claim him. It is best not to feed a dog for several hours before shipping.

Beneficial benefits

YOU can deduct from your income tax the difference between the regular box-office price for plays and films to which you subscribe, and the higher amount you pay for a benefit performance. List it as a charitable contribution.

Tax tips



THE Internal Revenue Service's annual booklet giving the latest income tax information for the guidance of individual taxpayers is available from the Government Printing Office, Washington 25, D.C. Called *Your Federal Income Tax, 1956,* this edition contains 112 pages of helpful suggestions, and costs 30 cents.

Saving by giving

IF you have something valuable that you no longer want, you may save more money by giving it away than you would by selling it for a mere pittance, provided that you: give it to a nonprofit organization willing to give you a receipt for it; get a statement of its fair market value from the organization or an appraiser; and itemize your deductions on your income tax return.—G. M. S.

Is Saving Old-fashioned?

by George Katona

In spite of inflation, retirement plans and installment buying, the desire to save remains almost universal among American families

DURING the last year several students of the American economy have expressed great concern about the insufficiency of consumer saving. Impressed by the substantial increase in installment debt and the tightening of interest rates, some analysts have gone so far as to conclude, to quote merely one, that "As a normal part of life, thrift now is un-American; people save little because they do not really believe in saving."

Three arguments are usually marshalled in support of the contention that the will to save has declined during the last few years. The first argument says that the ease with which installment credit is obtainable makes it unnecessary to save in order to be in a position to purchase automobiles, television sets, refrigerators and many other important goods. Secondly, it is argued that social security and private pension and retirement plans now make it less necessary to save for old age than even a few years ago. Finally, it is sometimes maintained that inflation has impaired the will to save.

In interview surveys, people in all walks of life have been asked repeatedly since World War II about their motives for saving. People's reasons for saving can be grouped into two categories. First of all, people say they save to achieve certain long-range specific goals—to provide for old age and retirement, for the education of their children, or to buy a house or business. In addition, many people say they save to accumulate emer-

gency reserves—to provide for "rainy days." Such reserves are not meant to be spent; for if spent, their very purpose—to achieve a feeling of security—would be dissipated. In all these respects, people feel now just as they did five or ten years ago.

Today, as ten years ago, buying automobiles and other durable goods is not seen as an important purpose of saving. Most people think that automobiles, washing machines, kitchen equipment, and so on, ought to be paid for out of current income. Savings are intended for longer-range purposes. Therefore, the motives to save have not been impaired by the widespread use of installment buying. On the contrary, there are many people who view installment buying as an aid in budgeting and even as helpful for saving. The installment plan compels them to make regular payments out of income; it supplies them with the incentive to save regularly.

Now, what about collective security arrangements such as group pension plans and social security? Do they obviate the need for independent saving? We must remember that in former generations, financial protection for old age was not generally achieved by individual savings efforts. In many socio-economic groups, this type of aid was provided by relatives, particularly grown children. The growth of collective security arrangements has occurred at a time of changing family relationships and changing concepts of family responsibility. Second, at the present time and probably for years to come, there is a considerable gap between the standard of living to which an employed family is accustomed and the standard of living provided by social security benefits and private pension plans. It is conceivable that the minimal protection afforded by collective insurance plans stimulates people to save in order to achieve a more adequate and complete level of protection. Without these plans, on the other hand, economic insecurity would be inescapable for many lower- and middle-income families.

This problem could and should be studied empirically. At present we have only a little evidence which has a bearing on it. As part of a recent study of life insurance ownership, the Survey Research Center investigated the relationship between ownership of individually purchased life insurance and membership in collective insurance plans. This relationship is crucial since individually purchased life insurance is probably

George Katona is Program Director of the Survey Research Center at the University of Michigan. This article has been condensed from a speech given recently by Dr. Katona before a conference of the National Savings and Loan League.

the closest substitute for the collective insurance programs. It appeared that people who are covered by social security or private pension plans have larger life insurance policies than people with similar incomes who are not covered. Apparently, the will to save and the perceived need for savings have not been impaired by collective security arrangements.

Restraint in spending

Turning finally to the possible effects of inflationary tendencies, we find first of all that the American people are aware of the increase in the cost of living. They are even greatly concerned with it and resent it. Yet, during several brief periods in the past ten years, inflationary tendencies led to restraint in spending and therefore to higher rates of saving. This happened because the American people never lost their confidence in the essential soundness and stability of the dollar. Even in 1951, following the substantial price advances during the Korean war, the majority of people predicted that in the long run prices would stabilize or decline somewhat. This belief is also reflected in their investment references. A very large majority of people express a preference for government bonds and savings accounts over such investments as common stock and real estate. Even among people with high incomes, investments of fixed money value continue to be preferred over investments of fluctuating money value, although by a much smaller margin than in the lower income groups. There is good reason to conclude that the "will to save" is not likely to be diminished by inflationary tendencies, unless the price advances which occur are larger and more rapid than those which we have experienced.

Let us turn now to the other side of the picture and analyze the prevailing motives to spend. The desire to improve the family's standard of living is widespread and strong. The strongest experience of Americans today is prosperity, not depression. The majority of families look back to several years of improvement in their financial situation, with incomes rising more than the cost of living. They confidently expect this development to continue.

We find that people with rising income, people who feel secure and are confident that their favorable income trend will continue, hasten to improve their standard of living. They tend to adopt the living standard of higher-income people even before they reach those income levels, rather than show a lag in changing their expenditures.

Thus, while the American people overwhelmingly desire to save for many important purposes of

life, they also are intent on improving their standards of living. Now, are these two attitudes in conflict? Must families make up their minds to buy the things they want and therefore not to save; or to save and go without the goods they want?

Of course, there is conflict. People's needs, and especially the needs of optimistic and confident people, are practically unlimited. People must choose continuously. Very few Americans can buy all the things they want, and most of them must decide whether the one or the other expenditure should have priority. The same is true of adding to savings. Most families are dissatisfied with the size of their savings or reserve funds. Nevertheless, there is some evidence that the conflict between saving and spending is not generally resolved in favor of the one or the other. Many families improve their standard of living and at the same time increase savings.

In a recent study of consumer behavior during the years 1954 and 1955, we first selected those families who had purchased automobiles or durable household goods either by installment or by paying cash. Secondly, we selected, from the same representative sample, people who said that their family had saved. Determining the exact amounts saved represents a difficult problem for survey research, partly because of memory errors, partly because of the complexity of transactions by upper-income people, and partly because of the problems involved in defining saving. Therefore, in our study we left it to the people themselves to decide how they defined savings. We relied on their answer to the following question: "Would you say you people saved money during the last twelve months, or did you decrease your savings, or did you just break even?" By comparing the answers to this question with other information obtained from the same people, it was found that what is subjectively considered as savings consists largely of additions to liquid funds—to bank deposits, accounts with saving and loan associations, savings bonds and common stock. Repayment of debt, life insurance premiums, and payments into retirement or pension funds are seen as savings by very few people only.

The will to save

We found that the proportion of American families who felt that they had saved some money was somewhat higher in 1955 than in 1954 and substantially higher than in 1952. That aggregate liquid saving rose from 1954 to 1955 can also be seen from Securities and Exchange Commission statistics analyzing savings. That in

1955 consumers spent unusually large amounts on durable goods and substantially increased their short-term debt is well known. It appears now that these activities did not detract from the will to save and probably were not carried out at the expense of adding to reserve funds.

Furthermore, we found in our recent studies that the majority of savers also purchased durable goods, many of them by buying on installment. Similarly, a substantial proportion of purchasers of durable goods also saved. Especially in the middle and upper-middle income groups, a large proportion of families did not restrict their discretionary activities to either buying durable goods or saving; they did, in varying degrees, both.

Of particular interest are the people who, during the same year, purchased durable goods on installment and also added to their savings. Doing so has been found to be associated with "optimism." Among the people who felt that their financial situation had improved and who were confident that the improvement would continue, many more chose to save *and* to buy on installment than among the people who were pessimistic. This is not surprising in view of the findings previously reported here. If both improvement of living standards and accumulation of reserve funds are viewed as positive goals which people wish to attain, we may readily understand that people who are optimistic, secure and confident will try to do both. In case of income increases, they often succeed in contributing to both of their goals during the same year.

We do not know enough about motives to save and to spend. Particularly, we need to know more about how people in different walks of life choose among the various media of saving and the various kinds of expenditures. But we do know that consumers' attitudes and expectations influence their buying and saving behavior. There is ample evidence in support of the contention that attitudinal and motivational data help us gain a better understanding of the American consumer. The recent high level of American spending can be explained only in part by the growth of incomes and assets. The confidence, satisfaction and optimism which have characterized consumer thinking are important additional explanations. These attitudes support upgrading desires and the increased use of consumer credit; but they have not detracted from the will to save. The desire to save has not been impaired either by the availability of installment credit, or by retirement plans, or by inflationary tendencies. It remains almost universal among American families. ■

The sensitive ratio between cost of labor and cost of machinery is one of the key factors in determining production methods

Why Productivity Varies

by Seymour Melman

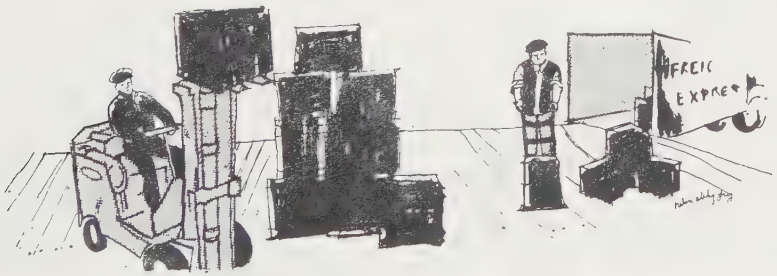
ONE OF the puzzles in the industrial world is the ability of American workers to outproduce workers in the highly industrialized nations of Europe by from three to five times, a feat that has made them the most productive in the history of mankind.

To determine why such a great difference in productivity exists, and to discover how to narrow the gap, European production technicians have been coming to the United States like modern Ponce de Leons to hunt for and examine the fountain of productivity.

When they get here they find that the pieces to the puzzle readily fall into place: the difference in productivity is accounted for by the intensive use of machinery and refined methods of organizing production.

The same machinery and production techniques used in the United States are available throughout the world. The knowledge and skill to utilize the machines and organize production are not the exclusive property of workers in the United States. Why, then, have other industrialized nations utilized less machinery and retained less efficient production methods?

The answer to this question is the heart of the problem of productivity. It is, simply, that industrial plant managers do not choose alternative methods of pro-



duction on the basis of productivity. As businessmen, they try to produce at the lowest possible cost to place their firms in the best market and profit position. The least-cost method of production in most manufacturing industries is determined by the variation between labor and machinery costs.

When the cost of machinery is high in relation to the cost of labor, the work that could be done by powered equipment is performed by manual labor. The result is a low rate of output per man-hour. When the cost of labor is high relative to the cost of machinery, plant managers counter the high labor cost by installing more machines and improving the efficiency of their production methods. The result is a high rate of productivity per man-hour.

Sensitive ratio the key

The sensitive ratio between the cost of labor and the cost of machinery, therefore, is the key to differences in production methods and productivity. How is this ratio traced?

In the United States, for example, the wages of industrial workers have risen far more rapidly than the prices of industrial machinery. Between 1947 and 1954, the average price increase for all types of machinery amounted to 37 per cent. But average hourly earnings of industrial and other workers went up more than 56 per cent.

In 1940, the average hourly wage of an industrial worker in the United States could be used to purchase 68 kilowatt hours of electricity for industrial use. Ten years later, the increased earnings of the same industrial worker could purchase 157 kilowatt hours.

This means that managers of industrial plants in the United States have been able to buy more machinery or more electric power at the cost of one hour of labor. Instead of hiring more workmen, who in an economy of relatively full employment are difficult to get, they have progressively mechanized their operations. In general, the managements pressed by the highest wage increases have made the most vigorous moves toward the use of labor-saving equipment and production methods.

The same process has been taking place in England, at a rate that has been about ten years behind the pace of mechanization in the United States. Here, too, this pace is largely guided by the ratio of labor costs to machinery costs.

Plants in England owned by U. S. firms, for example, are ope-

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rated more like other English factories, rather than the more highly mechanized factories of the parent firm in the United States. This difference is not due to a lack of capital for the purchase of machinery, or a lack of technical knowledge and skilled personnel. The difference arises primarily from the fact that the cost of labor in England is lower in relation to the cost of machinery. It costs the U. S.-owned plants in England less to use more manual labor on their production lines than is profitable in the United States. Obviously, lower productivity is the result in England.

Comparative costs

How costs appear to the industrial manager is illustrated by the problem of moving steel barrels from the receiving dock to other points in a factory, in either England or the United States. Managers of the plant have a choice of three methods: moving the barrels with a two-wheeled truck pushed by hand; moving them with a four-wheeled hydraulic lift hand truck; or using a motor-driven fork-lift truck.

A man pushing a hand truck can move 17 barrels an hour; a man with a hydraulic lift truck can move 53 barrels; and a man with a fork-lift truck, 120 barrels. The cost of moving each barrel by hand truck remains the same because the main cost is the hourly wage. The cost of moving the barrels by hydraulic truck and fork-lift truck decreases rapidly because the fixed charges involved in using the machines are spread out over the increased number of barrels moved.

In 1950, the cost of using the hand truck to move the barrels in England exceeded the cost of using the fork-lift truck by 137 per cent, at the 400 barrel mark. In the United States, the cost was 239 per cent more. This accounts for the greater use of mechanized materials-handling equipment in England at the time, although again about ten years behind the extensive use of similar equipment in the United States.

Pressures and counterpressures

At the same time, the cost of these fork-lift trucks made it possible for plant managers to introduce the equipment in their factories. The manufacturers of fork-lift trucks were also pressed by demands for higher wages, and were forced to utilize labor-saving machinery that enabled production of more trucks at fewer high-cost man hours. Whatever price increases were imposed still permitted the use of fork-lift trucks at a lower cost than the cost of manual labor.

These studies indicate that industrial productivity is not the

primary conscious goal of management, or labor. Both attempt to deal with their own problems: labor tries to improve its standard of living by demanding higher wages; management copes with added wage costs, the pressures of meeting competition and higher prices generally by improving production procedures. Increased productivity, then, is the offshoot of the respective pressures and counterpressures being applied on management and labor.

Changes in production methods are not made overnight. It generally takes a group of firms in an industry about five years to make extensive changes in production techniques. It has been determined, however, that the rate of change varies not only according to the amount of cost pressure on a company but also to the way managers respond to higher costs.

Dramatic shuffling

Major revisions in production methods oftentimes call for dramatic shuffling of managerial occupations themselves. Like people in other jobs, managers are reluctant to make their occupational skills obsolete. The resistance of managers to changes in their work, therefore, affects the relative speed of the degree of mechanization and improvement of efficiency undertaken in factories.

But as long as the cost of labor in relation to the cost of machinery continues to increase in the United States and in other industrialized nations, several developments can be expected. Industrial plant managers will be compelled to search for and develop more labor-saving machines, new short cuts in production methods and more efficient use of manpower; or may be compelled to increase prices, or both.

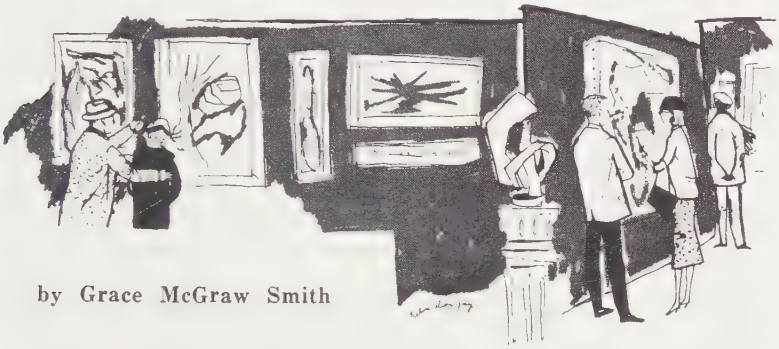
This process of productivity growth, in the view of some people, contains the special danger that price increases will lead to price inflation. The fact is that many factors and pressures produce price inflation. The productivity process need *not* be one of them.

It is conceivable that collective bargaining on wages could be operated within the limits of modest price rises or even price stability. In that case, management and labor would be forced to ask themselves: "How much of a wage increase could be absorbed by changes in production methods?"

Sooner or later, management and labor will have to arrive at a mutually agreeable answer on the basis of the latest measurement techniques.

Such common agreement on the criteria for measuring productivity would not only limit an important source of price increases; it would also stimulate the productivity process itself. ■

The vitality of young American painters, changes in collectors' tastes, the law of supply and demand and prosperity all help



by Grace McGraw Smith

AMERICAN ARTISTS FIND A MARKET

TWO actor-art collectors, Vincent Price and Edward G. Robinson, received barrels of fan-mail last fall during their contest about art on TV's $64,000 Question. Hundreds of these letters showed an enormous interest in art, and at the same time revealed that many people hesitate not only to buy paintings but even to visit galleries. One letter asked, "Can *anyone* really go into art galleries and look?"

There are many complicated reasons for this wall between artists and the public in America, but since World War II that wall has been breaking down. Back in 1946, there were about 60 galleries in New York City. Some twelve of the major ones showed contemporary paintings, whereas only two or three important galleries showed works by younger contemporary Americans exclusively. Today, New York has about 200 art galleries all told; and during the recent Christmas season, the Museum of Modern Art, which usually shows the works of established 20th century masters like Matisse and Picasso, held a retrospective show of the abstract paintings of Jackson Pollock, who was not taken seriously ten years ago.

In those ten years, of course, Americans have prospered. Since there is a limit to the number of Cadillacs, minks and television sets any one consumer will buy, some who have reached their limit have turned from buying such replaceable objects to collecting the irreplaceable: objects of art, and especially paintings.

Each painting is absolutely unique, even the painter cannot reproduce it exactly, and no creative painter would want to. Paintings, therefore, are really priceless, for their monetary value cannot be determined on the basis of any substitute. And if they are good, their value increases with time, although changing fashions in taste do affect their market value at any given moment.

Cost has risen

Prosperity is by no means the whole explanation for the increased purchase of contemporary American paintings. Since the supply of old masters like Rembrandt and that of the established moderns is limited, and the demand for them has increased, their cost has risen. Also contributing to their increasing costliness is the fact that they are slowly being absorbed into the museum collections. In the U. S. alone, almost 300 new art museums have been established during the last 30 years.

Another strictly economic factor—taxes—has advanced this drift of great art from private into public hands. If an owner sells a painting, he pays a heavy capital-gains tax. But if he gives it to a museum, he receives, instead, a tax deduction for the full amount of its appraisal, since he has made a gift to a tax-exempt educational or charitable institution. He can even keep the painting on his wall until he dies, although this diminishes the deduction allowed.

In contrast to the costliness of old masters and the 20th century masterpieces, some of which sell for hundreds of thousands of dollars, the works of younger American painters are inexpensive, although their cost rises as they become more popular. At one gallery that shows only American abstract paintings, the highest price asked for a painting four years ago when the gallery opened was 750 dollars. Today it is close to 7,500 dollars, still low when compared to the price of paintings by old masters and established moderns. But the average price for less known American artists' works ranges between 600 and 1,500 dollars, and the adventurous can buy a good painting for as little as 25 dollars, which is just slightly above the cost of a reproduction.

Two kinds of buyers

Two kinds of people buy paintings—collectors, and those who want paintings to decorate their homes or apartments. One dealer has defined the collector as a person who buys paintings without knowing where he's going to put them. Those who decorate buy comparatively few paintings, and their taste and numbers are hard to judge. But there are certainly

more such people, what with increasing disposable personal incomes and the publicity that good design in home decorating has received in recent years. There are also more collectors, surprisingly enough among 25 and 35-year-olds, and they are buying contemporary American paintings. Many also buy the more expensive paintings when they can, but they often prefer the American moderns.

Obviously, economic reasons alone do not explain the expanding market for works by young Americans. The vigor and creativity of the paintings is primary, and is being recognized now that the shock of the modern American school has finally worn off. This style is increasingly influencing painting abroad, moreover—a reversal of the usual tide. (American paintings are being shown abroad more than ever before, and the abstract paintings have evoked special interest.) Then too, American artists are less influenced by the myth of "the European artist," who was presumed to be the initiator of new movements and the guardian of the old.

One of the most interesting signs of this American vigor and confidence is the "shoestring gallery," which first turned up about ten years ago. Such galleries are begun by groups of artists with no capital other than one month's rent for a small place in which to show their own works. Today, New York has about 20 shoestring galleries, and those who are willing to buy the work of artists not yet established can get fine paintings in these galleries at very low cost.

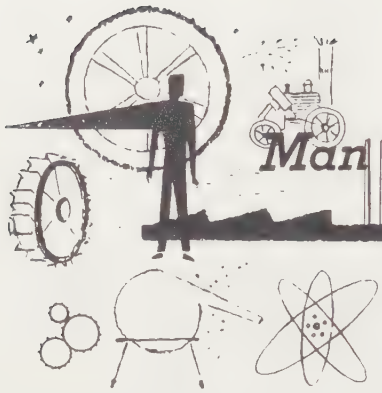
Market is spreading

Although New York City is the center, the market for younger painters is spreading. Chicago, Baltimore and Washington, D. C., have galleries showing them; museums all over the country are beginning to buy their works and accept them as gifts; and there is a ferment on the West Coast as well. In some areas, Houston, Tex., for example, artists have formed art societies which sponsor shows by contemporary American artists.

An increasing number of Americans are tasting the pleasure of owning unique objects of intrinsic beauty, as they discover that original works of art can be had for prices they can actually afford. As a result, American artists may finally win greater recognition and security in their own country. ■

The Value of Art

WHEN he died in 1919, Henry Clay Frick, the Pittsburgh steel magnate, left an art collection valued at 16 million dollars. In 1932, in the depths of the depression, the collection was worth 50 million dollars; today is is valued at 80 million dollars.



Man and the Economy

No. XXI

John Maynard Keynes, for better or worse, popularized economic ideas and practices on which today's Western nations feel compelled to rely

"Above all, individualism, if it can be purged of its defects and abuses, is the best safeguard of personal liberty in the sense that, compared with any other system, it greatly widens the field of personal choice. It is also the best safeguard of the variety of life, which emerges precisely from this extended field of personal choice, and the loss of which is the greatest of all the losses of the homogeneous or totalitarian state."

—J. M. KEYNES (*1883–1946*)

THE depression of the Thirties was not the first in the history of the United States. Never before 1929, however, had a depression combined such an agonizing degree of severity and duration in its impact upon all sectors of the economy and all nations of the Western world. Never before had governments or economists appeared so ill-equipped to cope with economic crisis.

Nature abhors intellectual along with other kinds of vacuums. Economic theory had long been based on the proposition that unemployment of men and machines could be cured quickly if workers accepted lower wages and businessmen lower prices. Lower wages would automatically induce increased employment, and lower prices would increase sales. In short, the economy was viewed as a self-adjusting mechanism. The early 19th century economist, Jean-Baptiste Say, had succinctly summarized the doctrine in an aphorism: supply creates its own demand.

Prior to 1929, "Say's Law" did roughly account for some of the facts of economic life. It conspicuously failed to do so after that date. Trade unions resisted wage cuts. Businessmen often preferred to curtail output instead of lowering prices. In either case, the self-adjusting mechanism economists had relied upon to limit the severity and duration of a depression failed. Thus, in a time of des-

perate emergency, economists were a sorely puzzled group.

Into this vacuum, in 1935, rushed a man and a book whose impact lingers. The man was John Maynard Keynes, and he was not a radical. As the quotation at the beginning of this article suggests, Keynes was deeply devoted to the virtues of free choice and human variety which he found in capitalist institutions. As one of the most brilliant students of that great follower of the classical economists, Alfred Marshall, he had produced earlier books in the tradition of his master. He was himself a rich man, a celebrated book collector, a patron of the arts and the husband of a ballerina. It would be hard to find a man further removed from the usual image of the wild-eyed radical.

There is something of a paradox, therefore, in the role that his book, *General Theory of Employment, Interest and Money,* came to play. Let us first summarize the new doctrine of that book. Because Keynes' predecessors had assumed that national income and total employment would take care of themselves, they had concentrated on the determination of *individual* prices and incomes. Keynes reversed this emphasis. Taking individual prices for granted, he concentrated on the forces which determine *national* income and, along with national income, *total* employment. The bare bones of his explanation can be summarized thusly: spending determines the level of national income; the level of national income determines the number of employed.

The problem, therefore, is to explain the causes of fluctuation in spending. Keynes' analysis centered around an explanation of the behavior of two key spending groups—consumers and investors. Consumers, according to Keynes, are creatures of habit who consistently spend more or less, depending almost entirely on the size of their incomes. We can find no key to the economy's fluctuations in their actions, since their habits of spending are predictable. That key is to be found, however, in the second kind of spending, investment, defined by Keynes as the purchase of new machines, new buildings and new inventories. Whereas consumers are ruled by custom and habit, investors must be guided by their assessment of the future; for the machines they buy will justify their purchase prices only if their products can be sold at profitable prices for the five, ten, fifteen or more years of life in those machines.

But who can know the future? If tomorrow is uncertain, how du-

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This is the twenty-first article of a series in CHALLENGE dealing with the economic development of man.

bious must next year be? And how incomprehensible 1966! Investors, of course, do their best to be rational. They try to compare their expected profits (Keynes' marginal efficiency of capital) with the interest costs of borrowing; but, inevitably, uncertainty beclouds their decisions. In the end, their decision to invest or not to invest depends upon their "animal spirits."

Attaining equilibrium

Suppose business optimism diminishes and investment contracts for any one of numerous reasons, such as high interest charges, shortages of promising investment opportunities, or sheer uncertainty. Then consider the result. Because spending decreases, inventories begin to pile up. In an effort to reduce them, businessmen lay off employees. Income and employment slump and continue to slump until at some point savings out of reduced incomes just match investment. Here is an exceedingly unpleasant state of equilibrium in which the economy can linger for months or even years, unless consumer spending increases or investment spontaneously expands. According to Keynes, there is a tendency for the economy to attain an equilibrium, not necessarily of the favorable type that Say described. For, contrary to "Say's Law," equilibrium need not represent a condition of full employment. Not all income need be consumed or invested, as Say assumed. No automatic mechanism guards us against the dire effects either of hoarding or of pessimistic investment attitudes.

Since he believed that economic fluctuation could be traced to the fluctuations in investment, Keynes proposed a number of ways of stimulating investment in times of depression. The simplest method, he thought, was to lower interest rates by the classic techniques, in this country, of lowering reserve requirements and rediscount rates, and buying government securities in the open market. Businessmen who were hesitant to invest might just be swayed by a reduction in their borrowing costs. But in a severe depression such measures as these might prove inadequate. For, where the outlook is really dismal, where no investment can promise a profit, the potential borrower doesn't feel like borrowing no matter how favorable the terms, and the potential lender sees no incentive to part with his savings.

Note of impatience

Keynes' more potent remedy was fiscal policy—deliberate variation either in tax rates, government spending or some combination of the two. Cuts in taxes leave more money in the hands of consumers who may reasonably be

expected to spend at least part of their windfall. Keynes considered deficit spending by government, whether on subsidies to the needy or on public works, analogous to an increase in private investment. A certain note of impatience suggests that Keynes was not overly concerned about what form government spending might take:

> "If the Treasury were to fill old bottles with banknotes, bury them at suitable depths in disused coal mines which are then filled up to the surface with town rubbish, and leave it to private enterprise on well-tried principles of *laissez-faire* to dig up the notes again. . . there need be no more unemployment, and, with the help of the repercussions, the real income of the community, and its capital wealth also, would probably become a good deal greater than it actually is. It would, indeed, be more sensible to build houses and the like; but if there are political and practical difficulties in the way of this, the above would be better than nothing."

The key word in the passage is "repercussions." According to Keynes, incomes received by one group lead to spending which increases the incomes of a second group, and so on—what he called the "multiplier" effect.

So much for the theory. There is no more rapid conversion of economists in the history of the subject than that which followed the publication of Keynes' *General Theory*. Not every economist became a Keynesian, and even today some leaders of the profession are hostile or lukewarm; but the bulk of the profession speedily accepted the major tenets of Keynesian theory.

If we were to answer the question, what do most economists now consider valid in Keynesian theory, we should say this. They accept national income as a proper subject of major emphasis. They agree that investment is a key both to economic stability and to economic progress. They have erected an admirable structure of national income statistics designed to facilitate study of these variables.

Economic implements

A majority of economists also agree that monetary policy (variations in interest rates and the quantity of money) and fiscal policy (changes in taxes and government spending) are appropriate economic implements, useful not only in spurring recovery from depression but also in suppressing tendencies toward inflation. For, as not all critics of Keynes perceive, the theory is reversible. In a time of high prices, Keynesian theory dictates that interest rates be raised and money made scarce. It suggests, if these tools prove ineffective, the still more powerful implements of tax increase and

spending reduction. But no part of Keynesian doctrine demands perpetual deficits and expanded government control over the economy, although politicians have sometimes regarded "Keynesianism" as a good rationalization for cheap money and government spending.

Inert and habitbound

There is much in Keynesian theory, however, that many economists view as either wrong or irrelevant. A case in point is Keynes' theory of consumer behavior which caricatures the consumer as inert and habitbound. The record of postwar America is eloquent testimony to the real unpredictability of the consumer, to his tendency at times to spend more than his income and at other times suddenly to increase his saving. Economists are also convinced that more can be said about the theory of investment than Keynes' remarks about optimism and pessimism. Certainly, the tremendous surge of postwar investment does not support Keynes' depression-conditioned attitude toward this critical activity.

Still, it is fair to say that most Western governments today accept Keynesian policies as a part of practical administration. In this country, the two parties differ, if at all, only in some slight Republican preference for monetary over fiscal policy, and the reverse, perhaps, in the Democratic emphasis. But there is little question that, if the recession of 1953-54 had deepened, the Eisenhower administration would have suggested a program either of tax cuts or of increased federal spending, and Congress would have accepted these recommendations. The Employment Act of 1946, which emphasizes the government's responsibility to maintain high employment, is an implicit adoption of the Keynesian outlook.

We have already spoken of the lasting contribution of Keynesian thought to the arsenal of the economist. We shall conclude by remarking that for good or ill, Keynes is even more deeply entrenched in the minds of administrators today, regardless of whether they use the terms he originated or read his "sacred" books. ■

NEXT MONTH: Joseph Schumpeter and the problem of economic growth under capitalism

Congress is examining the state of the nation's banking system, last overhauled in 1913. They believe it is time for—

Streamlined Banking Laws

by Herbert M. Bratter

CONGRESS is now in the first round of its thoroughgoing inquiry into the nation's banking laws. What is behind the examination?

Unlike the late Twenties and early Thirties, a banking crisis does not exist today. Individual bank failures—there were 2,200 a year during the depths of the depression—are now few and far between. And if some fail, bank deposits—as well as federal savings and loan accounts—are protected by federal insurance up to ten thousand dollars per account, a form of protection not available before 1935.

The financial crisis during the early depression years led to a series of emergency laws to shore up the tottering banking system. Since the passage of the Banking Act of 1935, there have been so many piecemeal revisions of the banking and credit laws as to make them look like a crazy quilt.

Since then, new trends in banking and credit have given rise to frequent demands for new legislation. Commercial paper, for example, no longer plays the role in money and banking that it occupied when the Federal Reserve System was organized in 1913, while installment credit has risen in importance. Savings and loan associations have become major competitors of commercial and savings banks. The rise of bank holding companies, savings and loan association holding companies, mergers and branch banking have brought new problems. All in all, the financial world has changed as much as other worlds since 1935.

These changes prompted the Senate Banking and Currency Committee to review the federal banking statutes. A subcommittee headed by Sen. A. Willis Robertson (D.-Va.) was appointed to give the laws a thorough housecleaning, eliminating the obsolete and adding new desirable provisions.

Robertson began his cleanup job with vigor last September. Not only did he ask all federal agencies concerned to recommend deletions and additions to the law, but he outlined some controversial areas of study. He proposed looking into such topics as restrictions on bank loans and investments; the regulation of bank holding companies, chain and branch banking and mergers; the competitive relationship between national and state banks; the reserve requirements on savings and loan associations and restrictions on their loans and investments.

Compile and clarify

A month later, when he opened hearings on the close to 200 technical proposals made by the federal agencies, Sen. Robertson trimmed his sails and decided to steer a course over less controversial waters. "The major objective of the Committee," he declared, "is to compile and clarify the federal statutes governing financial institutions and credit," and ". . . to modernize and streamline the banking laws." He added, "it is not intended to encroach on the field of credit and monetary policies."

Twenty-five bankers and two economists appointed by Sen. Robertson to advise and assist his subcommittee issued their recommendations a month later. Their suggestions included a proposal for the establishment of a Monetary and Financial Institutions Commission, like the National Monetary Commission which, from 1908 to 1912, had conducted an extensive investigation into the banking system and its policies. The formation of the Federal Reserve System and the establishment of its 12 central banks was the outgrowth of that commission's work.

"In the intervening years since the National Monetary Commission of 1908 completed its study," the subcommittee advisory group declared, "major economic and social changes have occurred which have substantially altered the functions, types and relationships of financial institutions to public need and the economy."

The advisers proposed that a new commission be given two years to "make an objective study and appraisal of the use of mone-

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Herbert M. Bratter has contributed many fine articles on business and financial subjects to CHALLENGE.

tary controls to stabilize the nation's economy and the impact of such controls upon the American system of free enterprise, and of the adequacy and responsibility of all financial institutions, as custodians of the nation's savings, to provide, individually and collectively under existing laws, the state and national needs for the continuing growth of our dynamic economy."

The commission, they added, should give "appropriate consideration to deposit and savings insurance programs, the essentiality of government lending and investing, and the tax burdens on debtors, creditors and equity owners."

Need for recodification

In the last two years, advocacy of such a commission has been coming from many influential persons, including former members of the Federal Reserve Board. One of them, Allan Sproul, former president of the New York Federal Reserve Bank, said two years ago:

"What I would now like to see is a renaissance in the study of money and banking in general and of central banking in particular. I would like to see a fresh and thorough examination of our existing banking and credit machinery and our money and capital markets. I would hope that out of such a study and examination would come new ideas and new proposals which would give shape and direction to future public policies and private actions."

While bankers see the need for recodification of the existing banking laws, they regard as of no lesser importance the creation of a new monetary commission empowered to recommend basic changes in over-all credit policies.

But last month, when Sen. Robertson's subcommittee released its tentative bill embodying the suggestions made by the advisory group and by federal agencies, it did not mention a Monetary and Financial Institutions Commission.

The 253-page committee bill modernizes seven laws dealing with national banks, the Federal Reserve Board and districts, the Federal Deposit Insurance Corporation and other federal financial agencies dealing with home loans, credit unions and savings and loan associations.

Many of the provisions are of a technical nature hardly likely to attract general public interest. Some of the new sections proposed for the Federal Deposit Insurance Corporation, however, are designed to tighten the law and thereby to prevent a recurrence of the banking scandal that shook Illinois last year.

That scandal involved Orville E. Hodge, former Illinois state audi-

tor, who pleaded guilty to charges that he embezzled more than 600 thousand dollars of state funds through a fraudulent check scheme. The FDIC was severely criticized by Congressional investigators and Senators for failing to detect Hodge's irregular activities during its examination of the banks used in his scheme.

Such attempts to strengthen bank supervision will not meet much opposition, but other sections of Robertson's proposed law will undoubtedly stir up the controversy he attempted to avoid. The bill, for example, reintroduces two issues that failed in previous sessions of Congress: the regulation of bank mergers and cumulative voting for directors of national banks.

The Federal Reserve Board, in suggesting new statutory changes, said it was avoiding "proposals relating to policy matters or the structure and scope of authority of federal bank agencies." The committee's suggestion to broaden the lending authority of 4,800 national banks, which come within the purview of not only the Federal Reserve Board but the Comptroller of the Currency, may tread on some sensitive toes.

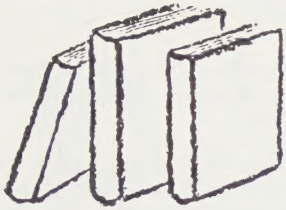
Hearings on the proposed measure open the door to debate on some questions which have plagued Congress for years. In the backgrounds are elements in the credit picture beyond the scope of present law, including the whole issue of credit control and a managed economy.

Sen. Robertson, however, is not giving any rein to these issues. On the whole, his bill contains the least common denominator of relatively non-controversial technical proposals which stand a chance of enactment in Congress. The Senator merely wants to tidy up the banking laws now. He will get that job out of the way before a National Monetary Commission comes on the scene to recommend broader and more basic changes.

Such a commission, far from being buried by omission from Sen. Robertson's bill, stands a good chance of coming into being. The proposal was included in President Eisenhower's State of the Union message in January. ■

Answers to Challenge Quiz

(1) False *(see page 13)*
(2) False *(see page 61)*
(3) True *(see page 48)*
(4) False *(see page 32)*
(5) True *(see page 68)*
(6) False *(see page 73)*
(7) False *(see page 18)*
(8) True *(see page 36)*
(9) True *(see page 23)*
(10) False *(see page 27)*
(11) False *(see page 56)*
(12) False *(see page 65)*



READING REPORT

The War Potential of Nations. Klaus Knorr. 310 pp. Princeton, N. J.: Princeton University Press. $5.00.

•During World War I, considerable propaganda centered around appeals to "the man behind the man behind the gun." The exhortation reflected warfare's new dimension—that is, the need to exploit our total resources: our will to fight, our economic capacity and our administrative efficiency. These resources are the subject of Dr. Knorr's study. His book is a pioneering effort to provide a theoretical framework for evaluating the elements of our war potential today. The section on economic capacity includes an especially interesting chapter on the flexibility of the economy.

* * *

When Labor Votes: A Study of Auto Workers. Arthur Kornhauser, Albert J. Mayer and Harold L. Sheppard. 352 pp. New York: University Books, Inc. $5.00.

•This volume reports the results of a research project which sought to find out how unionized automobile workers voted in the 1952 Presidential election—and *why* they voted as they did. The project, financed by a grant from the UAW-CIO to Wayne University, was undertaken by three faculty members. Those interested in labor's role in politics will find here a good deal of specialized data which, as the authors say, "furnish a basis for challenging speculation of what lies ahead."

* * *

The Trouble With Gumballs. James Nelson. 248 pp. New York: Simon and Schuster. $3.50.

•Sooner or later, practically everyone feels that the grass is greener and the prospects for gracious living better in some far-off place. When this feeling hit James Nelson, he gave up his New York job and apartment, and with his wife and infant son took off for California. Then began "an expensive venture into the world of private enterprise," which he describes in this book. The details of the author's adventure in simple living and his venture into an ill-fated business are told in a bouncing, breezy manner that makes easy, but not particularly enlightening, reading.

* * *

Social Security and Public Policy. Eveline M. Burns. 280 pp. New York: McGraw-Hill Book Company, Inc. $5.50.

•Even the extreme rugged individualist must realize by now that some so-called social security measures are indispensable in a modern society subject to the vicissitudes of progress. Contemporary social security policies and practices are re-

viewed in this volume by an outstanding authority whose academic grasp of the subject is matched by her experience in important legislative and administrative activities in the field. By discussing the basic problems rather than selected programs, Dr. Burns emphasizes the true scope and deeper significance of social security goals. The book is exceptionally well organized, opening with a resume of the overall problem, then treating specified aspects of it, and closing with some penetrating remarks about possible future policies.

* * *

Farmers at the Crossroads. Ezra Taft Benson. (As told to Carlisle Bargeron.) 107 pp. New York: The Devin-Adair Company. $2.50.

•Anyone under the impression that the present administration's farm policy is dictated by political considerations would learn otherwise from this "testament" by the Secretary of Agriculture. Mr. Benson writes boldly, from experience and conviction, and with complete disregard of political expediency. In fact, the author has been called "an agricultural statesman," and his exposition of the principles upon which our farm policies are based is evidence of his right to the title. Although brief to a fault, the Secretary manages in these few pages to illuminate the agricultural problem in general, and each of the important crop problems specifically. Especially enlightening is his treatment of the "revolution" in agriculture which has taken place in a generation, and his explanation of the "simple arithmetic" which, he asserts, invalidates the argument for rigid price controls. It would be nice if the style of writing were more graceful, but this a minor shortcoming.

* * *

Over My Shoulder. Clarence B. Randall. 248 pp. Boston: Atlantic-Little Brown. $3.50.

•The uniquely American "rags to riches" story is told once again, this time as a "reminiscence" by the former head of Inland Steel Co. Clarence Randall is a remarkable man whose success in business has been largely matched by his achievements in public service and in defending and clarifying the free enterprise system. He has written a lively book, teeming with anecdotes recounted in a style that reflects the vivacity and energy of the author. There is little here to excite the academician, but much to entertain those who enjoy the American scene.

* * *

Work and Its Discontents: The Cult of Efficiency in America. Daniel Bell. 56 pp. Boston: The Beacon Press. $1.25.

•This skimpy essay contains, as the author puts it, nothing more than " 'notes on work,' some reflections, some *aperçus*, some asides." Again quoting the author, "What ties these notes together is a mood, and some questions." Some idea of this mood is revealed by the word "cult" in the book's subtitle. It seems to this reader that the straining for efficiency in America is not so much a cult as an experiment, an energetic and extraordinarily intelligent effort to build what Mr. Bell himself calls a consumer-oriented culture. The author's hit-and-run treatment hardly does justice to the magnitude of his subject. ■

Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is Good. Answers on page 76.

(1) Up-to-date technological farming methods will solve our "farm problem."

True ☐ **False** ☐

(2) American industry outproduces that of every other country by keeping production costs at rock-bottom.

True ☐ **False** ☐

(3) Keen competition for available resources is behind the current "tight money" situation.

True ☐ **False** ☐

(4) Mutual fund investment companies are popular because they provide short-term profits.

True ☐ **False** ☐

(5) Republicans and Democrats alike accept Keynesian policies when it comes to the practical administration of government.

True ☐ **False** ☐

(6) Banking officials feel that a general study of money and banking is unnecessary.

True ☐ **False** ☐

(7) Nearness to sources of fuel and raw materials must always be the prime consideration in locating industrial plants.

True ☐ **False** ☐

(8) Storing farm surpluses costs the U. S. government about one million dollars a day.

True ☐ **False** ☐

(9) Foreign investments in American business are proportionately lower than they were before World War II.

True ☐ **False** ☐

(10) Mississippi is still blind to its need for industrialization.

True ☐ **False** ☐

(11) Easy installment credit and old-age security have reduced the American consumer's desire to save money.

True ☐ **False** ☐

(12) Collecting works of art is an expensive pastime indulged in only by the well-to-do.

True ☐ **False** ☐

Dept. of Better Mousetraps

About the House: a boon for harried mothers—a button fastener that attaches buttons without benefit of needle and thread. A pin is slipped through the eyelets of the button and the garment, then locked in place by a brass fastener . . . an electronic burglar alarm that is set off when anyone passes through an invisible beam of infrared light . . . a stapleless paper fastener that makes its own clips out of the paper . . . a plastic insert, part of a windproof, weathertight threshold strip, which can be squeezed against the lower edge of a closed door and eliminates mortising, remains flexible . . . and a giant pair of gold-plated paper clips with leather inserts, one marked "paid," the other, "unpaid."

* * *

From the World of Industry: *a miniature radar storm warning device weighing only 50 pounds that enables pilots of small planes to avoid storms up to 50 miles ahead . . . a safety lid for oil drum trash cans that keeps sparks and fly ash in the can, has an aluminized handle for burnproof lifting . . . an all-transistor wrist-radio receiver weighing 2.5 ounces, with a hearing-aid receiver for private listening . . . and an agent that helps beer keep its head.*

* * *

Car Gadgets: for the sports car set, a small fold-away spare tire. Made to last 1,000 miles, it is looped around the rim after the flat is removed, then inflated with the carbon dioxide gas bottle in the kit . . . and a safety-flare lamp to plug into the car lighter that gives a flood of light for tinkering while its red body warns motorists. Magnets hold it to any part of the car.

* * *

Junior Department: *an invisible-writing kit—messages written with the invisible-ink ball-point pen appear when dampened with the sponge soaked in a provided fluid . . . a battery-run ladybug with a flashing nose which changes its direction when its antennae touch any object in its path . . . and a fake tiger-skin rug for the little big-game hunter.*

* * *

Personal Business: a coffee cooler for the commuter who has to drink his in a hurry. The aluminum cylinder, which absorbs heat in seconds, has a polished wood handle . . . Solingen steel scissors that fold into a compact unit on a key chain . . . an aerosol spray that makes shoes and other leathers water-repellent, even at folds and indentations . . . and a "flirt gun"—a miniature gold-plated Flit gun to be filled with her favorite perfume.

* * *

Write us for more information.■